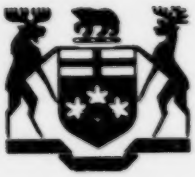
# The State of Small Business



## 1987

## Annual Report on Small Business in Ontario

La Rapport du Comité des adjoints parlementaires pour les petites entreprises et les faits saillants du rapport annuel sur les petites entreprises en Ontario figurent en français aux pages 21 à 33 et 35 à 38.

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**Minister of Industry, Trade and Technology**

I am delighted to present the second annual report on *The State of Small Business*. This report contains a wealth of information on the contribution of small businesses to job creation, the performance of successful young companies, and innovative government responses to the challenges of assisting the small business sector.

The government of Ontario's commitment to stimulating and encouraging the entrepreneurial spirit continues unabated. Recent initiatives have included the formation of an entrepreneurship subcommittee of the Premier's Council, measures to bring entrepreneurship into the province's schools and universities, a network of self-help centres and an investment coordinator for small business established in Eastern Ontario. In Northern Ontario, entrepreneurship is the driving force of renewed community strategies for diversifying the region's economy and creating jobs.

The Committee of Parliamentary Assistants for Small Business and this government will continue to look for new and better ways to create a fertile environment in which entrepreneurship may grow and flourish, to the greater prosperity of all Ontarians.

Monte Kwinter
Minister

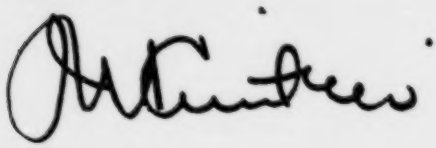
**Ministre de l'Industrie, du Commerce et de la Technology**

Je suis très heureux de présenter le deuxième rapport annuel sur *La situation des petites entreprises*. Ce rapport est une mine de renseignements sur la contribution des petites entreprises à la création d'emplois, le rendement des jeunes compagnies prospères et les réponses innovatrices du gouvernement aux défis que présente l'aide au secteur des petites entreprises.

Le gouvernement de l'Ontario reste prêt à stimuler et à encourager l'esprit d'entreprise. Les initiatives récentes portent notamment sur la formation d'un sous-comité du Conseil du premier ministre sur l'esprit d'entreprise, des mesures visant à introduire l'esprit d'entreprise dans les écoles et universités de la province, un réseau de centres d'entraide et un coordonnateur des investissements pour les petites entreprises établies dans l'Est de l'Ontario. Dans le Nord de l'Ontario, l'esprit d'entreprise est la force motrice des nouvelles stratégies communautaires instaurées pour diversifier l'économie de la région et créer des emplois.

Le Comité des adjoints parlementaires pour les petites entreprises et notre gouvernement vont continuer à rechercher de nouvelles façons de créer un milieu fertile où l'esprit d'entreprise pourra s'épanouir et se développer, pour le plus grand bien de tous les Ontariens.

Le ministre,



Monte Kwinter

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**Committee of Parliamentary Assistants for Small Business**

November 1, 1987

The Honourable Monte Kwinter
Minister
Ministry of Industry,
Trade and Technology
8th Floor, Hearst Block
Queen's Park
Toronto, Ontario

Dear Mr. Minister:

I am honoured to present to you the second annual report on *The State of Small Business*. This report, like its predecessor, contains significant research findings on the contributions small business enterprises and their owners make to Ontario's continuing economic prosperity.

The Committee of Parliamentary Assistants is proud to be the small business community's forum for dialogue with the government.

As Ontario's Small Business Advocate and on behalf of the committee, I thank you for the support you and your Ministry staff have given us.

Yours sincerely,

Rick Ferraro, MPP
Chairman
Committee of Parliamentary Assistants
for Small Business

**Comité des Adjoints Parlementaires pour les Petites Entreprises**

Le 1er novembre 1987

L'honorable Monte Kwinter
Ministre
Ministère de l'Industrie,
du Commerce et de la Technologie
8e étage, Édifice Hearst
Queen's Park
Toronto (Ontario)

Monsieur le ministre,

J'ai l'honneur de vous présenter le deuxième rapport annuel sur *La situation des petites entreprises*. Comme son prédécesseur, ce rapport contient d'importants résultats de recherche sur la contribution des petites entreprises et de leurs propriétaires au maintien de la prospérité économique de l'Ontario.

Le Comité des adjoints parlementaires pour les petites entreprises est fier de servir d'intermédiaire dans le dialogue entre le monde des petites entreprises et le gouvernement.

En tant que défenseur des petites entreprises de l'Ontario et au nom du Comité, je vous remercie de l'appui que vous nous avez accordé, vous-même et le personnel de votre ministère.

Veuillez agréer, Monsieur le ministre, l'expression de mes sentiments distingués.

Le président,
Comité des adjoints parlementaires
pour les petites entreprises,

Rick Ferraro
Député

# Report of the Committee of Parliamentary Assistants for Small Business

**Committee of Parliamentary Assistants for Small Business**

Rick Ferraro, M.P.P.
Chairman
Ministry of Industry,
Trade and Technology

Joseph Cordiano, M.P.P.
Ministry of Community
and Social Services

Herb Epp, M.P.P.
Ministry of Treasury
and Economics

Christine Hart, M.P.P.
Ministry of Health

Don Knight, M.P.P.
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Cabinet

Steven Offer, M.P.P.
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and Commercial Relations

Jean Poirier, M.P.P.
Ministry of Energy

Claudio Polsinelli, M.P.P.
Ministry of Labour

David Ramsay, M.P.P.
Ministry of Northern
Development and Mines

Douglas Reycraft, M.P.P.
Ministry of Education

Larry South, M.P.P.
Ministry of Environment

# The Report of the Committee of Parliamentary Assistants for Small Business

This is our second annual report to the Legislature on the State of Small Business in Ontario. Our task is, first of all, to take stock of the health of the small business community and its relations with the Government of Ontario. We are also casting our vision forward to identify the challenges and opportunities facing Ontario entrepreneurs and business owners. As politicians, the most demanding part of our assignment is to propose priorities for action on small business issues.

We have come through an unusual period in the political history of Ontario. For two years, important items on the legislative agenda were set out in advance in a highly formal and specific way. The government proceeded with great fidelity and energy to fulfill its commitments in the fields of health care, status of women, worker protection and job creation. As members of the Legislature and parliamentary assistants, members of the committee were well placed to scrutinize this legislation in light of the concerns of small business owners. In our view, the government met its reform objectives with sensitivity to small business.

In addition, the government took action to improve the preparation of new entrepreneurs, increase their chances of success and raise public awareness of the importance of small business in the province. The Speech from the Throne for 1987 announced measures to bring entrepreneurship into the province's schools and universities. It made small business the cornerstone of regional economic development, a strategy we recommended in our first annual report.

Although the small business community has benefitted from these positive measures and from consideration of its concerns in the drafting of legislation on pay equity and occupational health and safety, there is as yet no specific safeguard in Cabinet decision-making to protect the interests of small business owners. We identified this challenge a year ago and it remains to be addressed.

## A Safeguard for Small Business

The Minister of Industry, Trade and Technology asked the committee in November 1986 to come up with a strategy to reform the way the government makes policy and legislation that affect small business, and

the 1987 Speech from the Throne confirmed this mandate. We are now in a position to propose a safeguard the small business community needs.

Increasing regulation is a problem for small business owners. In fact, over 4,000 new Ontario regulations were introduced from 1982 to the present. A December 1986 federal-provincial study analyzed small business regulatory problems and paperburden. In other parts of Canada, small business owners said provincial governments accounted for a much smaller share of the problem than the Federal government. In Ontario, regulation was a more serious concern, with the Province equalling the Federal government as a source of regulatory costs and paperburden for small businesses.

Small business owners have said that regulating for big businesses doesn't fit the needs of small businesses. The enlightened response is to regulate with flexibility, fulfilling broader public policy goals and reducing the disproportionate impact on affected groups. This is possible, and reasonably easy to do. Some regulatory agencies in Ontario are leaders in this concept. Others apply techniques of analysis and adjustment less consistently and thoroughly.

Over the past year, the government has made Cabinet decision-making more systematic and professional. It has provided for consultation on the interests of groups such as native people, the disabled, seniors, francophones and women. All Cabinet submissions must include a statement on the economic impact of proposals. There is as yet, however, no provision for including in the economic impact statement the impact of proposed policy changes and new laws on the small business community, although data show that regulation is three times more costly for small businesses than it is for large businesses.

It is obvious to us as members of the Legislature and parliamentary assistants who also have responsibilities in the various ministries that small business needs formal status in the government's decision-making procedures. This will ensure that the needs of small businesses are regularly and thoughtfully reviewed when the government considers new initiatives that have significant impact on them. When powerful interests, whether within or outside the government, are at work, small business owners need effective advocacy within the system at the highest level.

We are proposing a simple system which will ensure that public policy goals are met and small businesses, the prime job generators in our economy and contributors of considerable wealth, are regulated appropriately.

If regulators consider, in an orderly fashion, several questions before developing policy, they can take care that the regulations they are developing will be neutral to small business. Including such questions in the economic impact statement appended to Cabinet submissions would help ensure that the proposed course of action would not adversely impact one of the province's major interest groups.

Experience shows that if questions are answered and analysis performed before a regulation is initiated, it is likely that most of the adverse impact on small businesses can be eliminated. Therefore, this would seem to be the easiest method for ensuring flexible regulation for small businesses.

In fact, what this would do is simply formalize the existing good practices which exist in many Ontario ministries and agencies and ensure that the best practices for regulation are followed throughout the entire public policy process. Without a formal system, tremendous energy is expended in trying to intercept proposals before they reach the Cabinet.

### Key Impacts to Consider

The statement would identify how many of the province's small businesses would likely be affected by the proposal. In addition, effects on sectors, industries, or regions would be shown. The initiator would be asked to assess whether there would be small business closures, whether profitability would be reduced and whether the proposal would create or cost jobs. The statement would ask the initiator to consider ways to reduce paperburden.

Finally, the initiator would be asked to explain why flexible regulation may have been rejected. As well, the statement would set out the results of consultations with small business, trade associations and individual owners, and a communications plan for disseminating information to small businesses. To assist in developing good impact statements, proposals which have an impact on small business should be reviewed by Ontario's Small Business Advocate with staff assistance from the Small Business Advocacy unit of the Ministry of Industry, Trade and Technology.

### What It Can Accomplish

The inclusion of small business in the economic impact statement would provide an orderly and systematic procedure for evaluating the effects of proposals before Cabinet as they affect small businesses. It would help

prevent excessive, inappropriate regulation of small businesses and release entrepreneurial energies which would otherwise be drained away on non-productive tasks.

In short, the statement would add small business to the current impacts which Cabinet considers. The process would be similar to that followed in the development of the pay equity legislation, which featured thorough consultation and negotiation with interested parties.

### Improved Representation for Small Business

Considering how the government and the small business community have interacted over the past year, we conclude that the government sought input from business and business associations found ways to express their views. At the same time, we think that more effective means must be found to represent the small business community. When the government is bent on meeting a strong public demand for action and has adopted a firm line of policy, such as we have seen in the fields of labour legislation and environmental protection, then it is vital that the business community work with government to find solutions.

We are convinced that a new forum for small business input is needed.

The Committee of Parliamentary Assistants has given associations and business owners an address in the Ontario Government. We have worked hard to provide coordination and consultation. We have found it hard, however, for the committee as a whole to meet with all of the business associations and leaders on a timely basis. This leads us to propose that the government establish a private sector Advisory Committee on Small Business to work with the Minister of Industry, Trade and Technology and the Committee of Parliamentary Assistants. We see this as a working forum that will help devise practical solutions on policy issues and legislation of the day. It would be fairly compact, well-informed and broadly representative. It would have impact and access at an effective political level.

### Mandate and Achievements for Small Business

In January 1987, membership in the committee grew from seven to eleven parliamentary assistants, embracing the Ministries of Northern Development and Mines, Education, Environment, Health and Management Board of Cabinet. The expanded committee continued to function under the four-point mandate originally set by Premier David Peterson:

1. to demonstrate to the business community that the Ontario Government has a positive, coordinated approach to small business owners;
2. to consider existing programs for small business and ensure that they are effective, accessible and designed to provide maximum benefit;
3. to develop a process for reviewing existing regulation and screening new legislation and rules to make them as responsive as possible to the realities of doing business; and
4. to advise the government on new ideas and initiatives in support of small business.

The committee has progress to report in all of these areas.

### A Positive, Coordinated Approach

A top priority of the committee is to provide a forum for small business owners and their associations to be heard in government. Consultation meetings organized by the Small Business Advocacy unit of the Ministry of Industry, Trade and Technology were an important point of access and gave the business community the opportunity to come together and formulate common positions. The Canadian Federation of Independent Business, Canadian Organization of Small Business, Canadian Manufacturers' Association, Ontario Chamber of Commerce, Retail Council of Canada, Retail Merchants' Association, Ontario Trucking Association and the Council of Ontario Construction Associations, among others, participated regularly in these meetings. Through this forum, the Committee of Parliamentary Assistants took account of informed small business views in its advice to the government. This channel of communication was highly productive on leading issues such as pay equity, workers' compensation reform and response to the Federal White Paper on tax reform.

### Ontario Programs for Small Business

The committee worked closely with Ministry and Ontario Development Corporation staff on the implementation of the New Ventures guaranteed loan program. In its first year of operation, participating lenders approved over 3,000 loan applications for a total value of over $40 million. The popularity of New Ventures financing for new businesses was unprecedented. The program exceeded targets set for reaching women in business and the northern and eastern regions of the

province. Women accounted for 26 per cent of the borrowers; loans to the north and the east made up 29 per cent of the total funds advanced.

Also in the financing arena, the committee advised the government to broaden access to the Small Business Development Corporations program, a Ministry of Revenue initiative that had been restricted to only a few types of businesses. In the 1987 budget, the Ontario Treasurer announced that the SBDC program would expand to a wider range of firms in the service industries.

### Responsive Legislation

The committee and its Chairman, in his capacity as Ontario's Small Business Advocate, took strong positions on the province's pay equity legislation. The resulting Pay Equity Act is favourable to small firms while advancing the government's goal of improving the status of women in the job market. Firms having fewer than ten employees are exempt from the legislation and small businesses with fewer than 100 employees are permitted a substantial phase-in period for compliance. At the same time, the committee is optimistic that many small businesses will see voluntary compliance as good business practice and progressive employment policy. The committee notes that over 80 per cent of the owners of young Ontario companies agreed that the government should pass legislation to make sure that women and men in the private sector receive equal pay for work of equal value.

The committee worked closely with the Minister of Labour to ensure that small business interests would be protected and small business associations carefully consulted on new legislation. The Minister of Labour met with the committee on February 10, 1987 and gave his undertaking that the Ministry of Labour would consult comprehensively on amendments to the Employment Standards Act and workers' compensation reforms. Small business interests were subsequently considered in drafting the bill on occupational health and safety and legislation on plant closings and severance protection for workers. The small business community greeted proposals for reform of liquor regulations with broad support when the committee for the review of Ontario's liquor regulations, headed by Steven Offer (MPP Mississauga), a member of this committee, submitted its report to the Minister of Consumer and Commercial Relations.

### New Ideas and Initiatives

In its 1986 report on the State of Small Business, the committee recommended that the government make small business a central

element of regional development strategy. As Albert Shapero wrote:

> Small businesses are personal and local. Small businesses are products of their local economies and cultures, and the business decisions made by their owners are permeated with consideration for the communities in which they live and carry on their businesses.[1]

Premier David Peterson underscored this logic when he said that the economic renewal of Northern and Eastern Ontario would depend on hundreds of small solutions emerging in local communities. In the 1987 Throne Speech, the government reinforced community-based initiatives with announcements of small business programs for Eastern Ontario. The Eastern Ontario Small Business Network will link new provincial services, such as local self-help offices, with existing resources.

The committee is also pleased to note that the Premier's Council has formed an entrepreneurship sub-committee headed by D.C. Webster, President of Helix Investments Ltd. The Premier's Council has endorsed proposals for a major convention, scheduled for May 1988, to promote entrepreneurship and investment in Ontario companies. The Council is also funding university and college-based centres for entrepreneurship. Building our long-term entrepreneurial strength demands the full support of our educational system. The committee applauds moves to introduce a high school curriculum in entrepreneurship now under development in the Ministry of Education in cooperation with local school boards. The Ministries of Industry, Trade and Technology and Education are also at work on a program of entrepreneur school visits to alert more Ontario young people to the option of a small business career.

For the coming months, we have given ourselves the job of developing a second major initiative in small business financing, building on the success of New Ventures which has provided start-up loans to thousands of small businesses. The challenge now is to find better ways of capitalizing businesses led by our best entrepreneurs to help them achieve their fast growth potential and become nationally and internationally competitive firms. In Peter Drucker's view, this is "the greatest help government can provide the entrepreneurial economy": to assuage the most crippling ailment of expanding enterprises, their

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[1]Albert Shapero, "Why Entrepreneurship?", The Ohio State University, 1984.

chronic cash shortage.[2]

We identify the field of tax reform as another crucial arena for small business in the days ahead. Ontario's Small Business Advocacy group has worked with business associations and expert advisors to develop common positions on the federal proposals. Tax reform is high on our agenda and we would make it a key issue for consultation with the new advisory body we are proposing. The Federal government and the provinces must work hard to devise a National Sales Tax that will be simple for small business owners to comply with and reduce rather than compound the burden of government paperwork.

### The Second Annual Report on Small Business in Ontario

Our first report to the Legislature in December 1986 concentrated on the remarkable, ever-rising tide of new business formations in Ontario. Business starts have doubled since the late 1970's, reaching 115,000 new registrations in the year ending March 1987, including almost 40,000 incorporations. The mass phenomenon of entrepreneurship we documented a year ago has continued and even strengthened as the Ontario economy surged forward. The job creation record of small businesses, which helped the province through the recession of 1981-82, has been sustained in the good years as well.

This year's report includes new information on the dynamic growth of small businesses in Ontario. It presents research findings on where the jobs are coming from, insights into the performance of our successful young companies, some remaining barriers to growth, and responsive government programs.

### The Small Business Challenge

We have tried hard, as members of a new government, to look forward and formulate a vision for small business. The newly-elected government has some similarities with and some obvious differences from the one in which we have served for the past two years. The new government is similar in that it has deep and serious commitments to reform in the fields of worker protection, environment, community-based services to the elderly and education. The people of Ontario have sought and have received open, progressive and responsive government.

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[2]Peter Drucker, "Our Entrepreneurial Economy", *Harvard Business Review*, January-February, 1984.

This government has the will and the mandate to implement change. If there is a tendency to err, we are more concerned about the risk of insensitivity and lack of balance than false starts and indecision. Our job will be to keep the government attuned to small business concerns even as it proceeds to meet public expectations of reform. We know that a favourable environment for entrepreneurship is a precious resource in Ontario. We have a superb business climate and well-founded perceptions that this province is the best place to start a business.

We are convinced that preserving these conditions, particularly given a strong government with a dynamic agenda, requires new measures to put the machinery of government under self-discipline. The Government of Ontario must never become a high-handed juggernaut rolling over the interests of the small business community.

This leads us to propose, first, that the government reform the Cabinet decision-making system to provide for formal consultation and study of the impact on small business whenever new policy, legislation or regulations are considered that have significant effects on the small business community. Small business impact should be evaluated in the economic impact statements required in preparation for Cabinet decision-making.

Secondly, we are recommending a private sector Advisory Committee on Small Business to work with the Minister of Industry, Trade and Technology and the Committee of Parliamentary Assistants for Small Business on integrating the leading issues affecting small business with the government's legislative program.

Finally, we are making equity financing and tax reform our top new priorities for the year ahead. We will make it our business to pay attention to the federal-provincial negotiations on tax reform and work with the Treasurer of Ontario to ensure that the Canadian tax system preserves and strengthens the incentive to be an entrepreneur in Ontario and to invest in the future of our small businesses.

# Rapport du Comité des Adjoints Parlementaires pour les Petites Entreprises

**Comité des Adjoints Parlementaires pour les Petites Entreprises**

Rick Ferraro, député
Président
Ministère de l'Industrie,
du Commerce et de la Technologie

Joseph Cordiano, député
Ministère des Services sociaux
et communautaires

Herb Epp, député
Ministère du Trésor
et de l'Économie

Christine Hart, député
Ministère de la Santé

Don Knight, député
Conseil de gestion

Steven Offer, député
Ministère de la Consommation
et du Commerce

Jean Poirier, député
Ministère de l'Énergie

Claudio Polsinelli, député
Ministère du Travail

David Ramsay, député
Ministère du Développement
du Nord et des Mines

Douglas Reycraft, député
Ministère de l'Éducation

Larry South, député
Ministère de l'Environnement

# Rapport du comité des adjoints parlementaires pour les petites entreprises

Voici notre deuxième rapport annuel à l'Assemblée législative sur la situation des petites entreprises en Ontario. Notre tâche consiste, avant tout, à évaluer la situation des petites entreprises et leurs relations avec le gouvernement de l'Ontario. Nous jetons également un regard sur l'avenir afin d'identifier les défis et les opportunités qui attendent les entrepreneurs et les propriétaires d'entreprise de l'Ontario. En tant que politiciens, la partie la plus difficile de notre tâche consiste à proposer des priorités d'action dans le domaine des petites entreprises.

Nous venons de traverser une période inhabituelle dans l'histoire politique de l'Ontario. Pendant deux ans, les points importants du programme législatif ont été établis à l'avance d'une façon très formelle et précise. Le gouvernement a entrepris avec beaucoup de fidélité et d'énergie de remplir ses engagements dans le domaine de la santé, de la condition féminine, de la protection des travailleurs et de la création d'emplois. En tant que députés et adjoints parlementaires, les membres du Comité étaient particulièrement bien placés pour étudier la législation dans la perspective des propriétaires de petites entreprises. À notre avis, le gouvernement a atteint ses objectifs de réforme en restant sensible aux problèmes des petites entreprises.

En outre, le gouvernement a pris des mesures pour améliorer la préparation des nouveaux entrepreneurs, augmenter leurs chances de succès et rendre le public plus conscient de l'importance des petites entreprises dans la province. Le Discours du Trône de 1987 annonçait des mesures visant à introduire l'esprit d'entreprise dans les écoles et universités de l'Ontario. Il faisait des petites entreprises la pierre angulaire de l'expansion économique régionale, stratégie que nous avions recommandée dans notre premier rapport annuel.

Bien que les petites entreprises aient bénéficié de ces mesures positives et de la prise en compte de leurs préoccupations lors de la rédaction de la législation sur l'équité salariale et la santé et la sécurité au travail, il n'y a toujours pas de garantie particulière dans le processus de prises de décision du Conseil des ministres pour protéger les intérêts des propriétaires de petites entreprises. Nous avions signalé cette situation il y a un an et elle reste toujours en suspens.

## Une garantie pour les petites entreprises

Le ministre de l'Industrie, du Commerce et de la Technologie a demandé au Comité en novembre 1986 de lui présenter une stratégie en vue de réformer la façon dont le gouvernement élabore les politiques et les lois qui touchent les petites entreprises et le Discours du Trône de 1987 a confirmé ce mandat. Nous sommes maintenant en mesure de proposer la garantie dont les propriétaires de petites entreprises ont besoin.

La réglementation croissante pose des problèmes aux propriétaires de petites entreprises. En fait, plus de 4 000 nouveaux règlements de l'Ontario ont été introduits depuis 1982. Une étude fédérale-provinciale de décembre 1986 a analysé les problèmes de réglementation et de paperasse touchant les petites entreprises. Dans d'autres régions du Canada, les propriétaires de petites entreprises ont déclaré que le gouvernement provincial était beaucoup moins gênant que le gouvernement fédéral. En Ontario, la réglementation était un problème plus grave, car on estimait que la province était à égalité avec le gouvernement fédéral au niveau du coût de la réglementation et de la paperasse administrative pour les petites entreprises.

Les propriétaires de petites entreprises ont déclaré que les règlements visant les grosses entreprises ne répondent pas aux besoins des petites entreprises. La solution éclairée consisterait à réglementer de façon souple, afin de réaliser les objectifs d'ensemble des politiques publiques et d'en réduire les effets disproportionnés sur les groupes concernés. C'est non seulement possible, mais aussi assez facile à réaliser. Certains organismes de réglementation de l'Ontario sont des pionniers de ce concept. D'autres appliquent les techniques d'analyse et de rajustement de façon moins uniforme et moins minutieuse.

Au cours de la dernière année, le gouvernement a rendu le processus gouvernemental de prises de décision plus systématique et professionnel. Il a prévu des consultations concernant les intérêts de groupes tels que les autochtones, les personnes handicapées, les personnes âgées, les francophones et les femmes. Toutes les propositions au Conseil des ministres doivent contenir une déclaration concernant leur impact économique. Pour l'instant, toutefois, on ne prévoit toujours pas de déclaration concernant l'impact des changements de politique proposés et des nouvelles lois sur les petites entreprises, bien que les données montrent que la réglementation coûte trois fois plus cher aux petites entreprises qu'aux grandes.

Il nous semble évident, en tant que députés et adjoints parlementaires exerçant certaines responsabilités dans les divers

ministères, que les petites entreprises doivent être représentées officiellement dans le processus gouvernemental de prises de décision. Ainsi, les besoins des petites entreprises seront examinés régulièrement et soigneusement chaque fois que le gouvernement envisage de prendre de nouvelles initiatives qui les touchent de près. Lorsqu'il y a des intérêts puissants en jeu, que ce soit à l'intérieur ou à l'extérieur du gouvernement, les propriétaires de petites entreprises ont besoin d'avoir un défenseur efficace au plus haut niveau au sein du système.

Nous proposons un système simple qui assurera la réalisation des objectifs des politiques publiques et la réglementation appropriée des petites entreprises, qui sont les principales créatrices d'emplois dans notre économie et productrices d'une richesse considérable.

Si les fonctionnaires chargés de préparer les règlements se posent systématiquement plusieurs questions avant d'élaborer leurs politiques, ils pourront s'assurer que les règlements qu'ils élaborent ne nuiront pas aux petites entreprises. Inclure ces questions dans une Déclaration d'impact économique sur les petites entreprises annexée aux soumissions au Conseil des ministres permettrait de s'assurer que la voie proposée n'aura pas d'effet néfaste sur l'un des principaux groupes d'intérêt de la province.

L'expérience montre qu'en répondant à ces questions et en effectuant l'analyse *avant* d'amorcer le processus de réglementation, il est possible d'éliminer la plupart des effets néfastes sur les petites entreprises. Par conséquent, il semblerait que ce soit la méthode la plus facile pour assurer une réglementation souple aux petites entreprises.

En fait, cette mesure ne ferait que rendre officielle les bonnes pratiques qui existent déjà dans de nombreux ministères et organismes ontariens et étendre l'application des meilleures méthodes de réglementation à l'ensemble du processus des politiques publiques. Sans un système officiel, on consacre énormément d'efforts à essayer d'intercepter des propositions avant qu'elles parviennent au Conseil des ministres.

### Facteurs clés à considérer

La déclaration devrait indiquer combien de petites entreprises de la province seraient vraisemblablement touchées par la proposition. En outre, elle indiquerait également les effets sur les divers secteurs, industries et régions. L'auteur de la réglementation devrait évaluer le risque de fermeture de petites entreprises, de réduction de leur profitabilité, ainsi que la probabilité de création ou de suppression

d'emplois. La déclaration demanderait à l'auteur de la réglementation de trouver des moyens de réduire la paperasse administrative.

Enfin, l'auteur devrait expliquer pourquoi une réglementation plus souple a été rejetée. En outre, la déclaration indiquerait les résultats des consultations tenues avec le secteur des petites entreprises, les associations commerciales et des propriétaires d'entreprise, ainsi qu'un plan de communications en vue de diffuser les renseignements aux petites entreprises. Pour aider les responsables à préparer de bonnes déclarations d'impact, les propositions ayant un impact sur les petites entreprises devraient être examinées par le défenseur des petites entreprises, avec l'aide du personnel de l'Unité de défense des petites entreprises du ministère de l'Industrie, du Commerce et de la Technologie.

### Que peut donner cette déclaration

L'inclusion des petites entreprises dans la Déclaration d'impact constituerait une procédure ordonnée et systématique d'évaluation des effets des propositions présentées au Conseil des ministres sur les petites entreprises. Elle permettrait d'éviter une réglementation excessive et inappropriée des petites entreprises et de libérer des énergies créatrices qui seraient autrement gaspillées à des tâches non productives.

En bref, la déclaration ajouterait les petites entreprises à la liste actuelle d'impacts que le Conseil des ministres doit considérer. Le processus serait semblable à celui qui a été suivi lors de la préparation de la législation sur l'équité salariale, qui comportait des consultations et des négociations poussées avec les groupes intéressés.

### Une meilleure représentation pour les petites entreprises

Si l'on considère les relations entre le gouvernement et les petites entreprises au cours de l'année passée, nous concluons que le gouvernement a cherché à obtenir le point de vue des entreprises et que les associations d'entreprises ont trouvé des moyens d'exprimer leur opinion. En même temps, nous pensons que l'on doit trouver des moyens plus efficaces pour représenter les petites entreprises. Lorsque le gouvernement est déterminé à satisfaire aux demandes pressantes du public et qu'il a adopté une politique ferme, comme nous l'avons vu dans les domaines de la législation du travail et de la protection de l'environnement, il est vital que les petites entreprises collaborent avec le gouvernement pour trouver des solutions.

Nous sommes convaincus qu'il nous faut un nouveau forum pour faire entendre le point de vue des petites entreprises.

Le Comité des adjoints parlementaires pour les petites entreprises a donné aux associations et aux propriétaires d'entreprise une adresse au gouvernement de l'Ontario. Il a travaillé fort au niveau de la coordination et des consultations. Il a toutefois été difficile pour le Comité dans son ensemble de rencontrer toutes les associations d'entreprises et leurs dirigeants de façon opportune. Ceci nous amène à proposer que le gouvernement crée un Comité consultatif sur les petites entreprises dans le secteur privé pour aider le ministre de l'Industrie, du Commerce et de la Technologie et le Comité des adjoints parlementaires. Nous l'envisageons comme un forum de discussion qui aidera à trouver des solutions pratiques concernant les politiques et la législation en cours de préparation. Ce serait un forum assez restreint, bien informé et largement représentatif, qui aurait un impact et l'accès à un niveau politique efficace.

### Mandat du Comité et réalisations en faveur des petites entreprises

En janvier 1987, l'effectif du Comité est passé de sept à onze adjoints parlementaires, avec l'addition des adjoints parlementaires des ministres du Développement du Nord et des Mines, de l'Éducation, de l'Environnement, de la Santé et du Conseil de gestion. Le Comité élargi continue de fonctionner en vertu du mandat en quatre points qui lui a été confié au départ par le premier ministre David Peterson :

1. démontrer au monde des affaires que le gouvernement de l'Ontario traite les propriétaires de petites entreprises selon une perspective positive et coordonnée;
2. étudier les programmes actuels destinés aux petites entreprises et s'assurer qu'ils sont efficaces, accessibles et conçus pour donner le maximum d'avantages;
3. mettre sur pied un mécanisme de révision des règlements existants et vérifier les nouvelles législations et règles pour les rendre aussi sensibles que possible aux réalités du monde des affaires; et
4. conseiller au gouvernement de nouvelles idées et de nouvelles mesures à l'appui des petites entreprises.

Le Comité rapporte des progrès dans chacun de ces domaines.

## Une perspective positive et coordonnée

L'une des principales priorités du Comité est d'offrir un forum aux propriétaires de petites entreprises et à leurs associations afin qu'ils puissent se faire entendre du gouvernement. Les réunions de consultation organisées par l'Unité de défense des petites entreprises du ministère de l'Industrie, du Commerce et de la Technologie constituaient un important point d'accès au gouvernement et ont donné aux représentants du monde des affaires l'occasion de se réunir et de formuler des positions communes. La Fédération canadienne de l'entreprise indépendante, la Canadian Organization of Small Business, l'Association des manufacturiers canadiens, la Chambre de commerce de l'Ontario, le Conseil canadien du commerce de détail, la Retail Merchants' Association, l'Ontario Trucking Association et le Council of Ontario Construction Associations, entre autres, ont participé régulièrement à ces réunions. Grâce à ce forum, le Comité des adjoints parlementaires a pu tenir compte des points de vue informés des petites entreprises dans ses conseils au gouvernement. Cette voie de communication s'est révélée très productive dans les principaux domaines, tels que l'équité salariale, la réforme des accidents du travail et la réponse au Livre blanc du gouvernement fédéral sur la réforme fiscale.

## Programmes ontariens destinés aux petites entreprises

Le Comité a travaillé en étroite collaboration avec le personnel du ministère et de la Société de développement de l'Ontario à la mise en oeuvre du programme de prêts garantis Nouvelles Entreprises. Au cours de la première année du programme, les prêteurs participants ont approuvé plus de 3 000 demandes de prêts d'une valeur totale de plus de 40 millions de dollars. La popularité de ce programme de financement auprès des nouvelles entreprises est sans précédent. Le programme a dépassé ses objectifs en matière de femmes propriétaires d'entreprise et de création d'entreprises dans les régions Nord et Est de la province. Les femmes représentaient 26 pour 100 des emprunteurs; les prêts approuvés dans les régions Nord et Est représentaient 29 pour 100 des fonds totaux avancés.

D'autre part, toujours dans le domaine financier, le Comité a conseillé au gouvernement d'élargir l'accès au programme des Compagnies pour l'expansion des petites entreprises, initiative du ministère du Revenu qui a jusqu'à présent été limitée à certaines entreprises particulières. Dans le budget de 1987, le trésorier de

l'Ontario a annoncé que le programme des CEPE serait étendu à une gamme plus vaste d'entreprises dans les industries de services.

### Une législation sensible aux besoins des petites entreprises

Le Comité et son président, dans son rôle de défenseur des petites entreprises de l'Ontario, ont pris des positions fermes concernant la législation provinciale sur l'équité salariale. En conséquence, la *Loi sur l'équité salariale* est favorable aux petites entreprises, tout en faisant progresser l'objectif gouvernemental d'améliorer la situation des femmes sur le marché du travail. Les entreprises ayant moins de dix employés sont exemptées de la législation et les petites entreprises ayant moins de 100 employés sont autorisées à allonger quelque peu la période de mise en application de la loi. Par ailleurs, le Comité est persuadé que de nombreuses petites entreprises considéreront l'application volontaire de la loi comme une bonne pratique commerciale et une politique d'emploi progressiste. Le Comité prend note que plus de 80 pour 100 des propriétaires de jeunes compagnies de l'Ontario étaient d'accord pour que le gouvernement adopte une loi pour faire en sorte que les femmes et les hommes du secteur privé reçoivent un salaire égal pour un travail d'égale valeur.

Le Comité a travaillé en étroite collaboration avec le ministre du Travail afin de s'assurer que les intérêts des petites entreprises seraient protégés et que les associations de petites entreprises seraient soigneusement consultées au sujet de la nouvelle législation. Le ministre du Travail a rencontré le Comité le 10 février 1987 et indiqué que le ministère du Travail allait tenir des consultations approfondies concernant les modifications apportées à la *Loi sur les normes d'emploi* et la réforme des accidents du travail. Les intérêts des petites entreprises ont par la suite été pris en considération lors de la rédaction du projet de loi sur la santé et la sécurité au travail et de la législation sur les fermetures d'usine et la protection des travailleurs en cas de licenciement. Les petites entreprises ont apporté un large soutien aux propositions de réforme des règlements concernant les boissons alcooliques lorsque le comité d'étude des règlements de l'Ontario sur les boissons alcooliques, dirigé par Steven Offer (député de Mississauga), membre de ce comité, a remis son rapport au ministre de la Consommation et du Commerce.

## Idées et initiatives nouvelles

Dans son rapport de 1986 sur la situation des petites entreprises, le Comité avait recommandé que le gouvernement fasse des petites entreprises la pierre angulaire de sa stratégie de développement régional. Comme l'écrit Albert Shapero :

> Les petites entreprises sont personnelles et locales. Les petites entreprises sont des produits des économies et des cultures locales et les décisions d'affaires prises par leurs propriétaires sont empreintes d'une certaine considération pour les collectivités dans lesquelles ils vivent et poursuivent leurs activités commerciales.[1]

Le premier ministre David Peterson a souligné la logique de ce raisonnement lorsqu'il a déclaré que le renouveau économique du Nord et de l'Est de l'Ontario dépendrait de centaines de petites solutions qui prendraient naissance dans les collectivités locales. Dans le Discours du Trône de 1987, le gouvernement a renforcé les initiatives de la collectivité en annonçant des programmes destinés aux petites entreprises de l'Est de l'Ontario. Le Réseau des petites entreprises de l'Est de l'Ontario reliera les nouveaux services provinciaux, tels que les bureaux d'entraide locaux, aux ressources existantes.

Le Comité est aussi heureux de noter que le Conseil du premier ministre a formé un sous-comité sur l'esprit d'entreprise dirigé par D.C. Webster, président d'Helix Investments Ltd. Le Conseil du premier ministre a endossé les propositions en faveur de la tenue d'un important congrès, prévu pour mai 1988, afin de promouvoir l'esprit d'entreprise et les investissements dans les compagnies de l'Ontario. Le Conseil finance également des centres de développement de l'esprit d'entreprise dans les universités et les collèges. Nous avons besoin du soutien total de notre système d'éducation pour nous donner un solide esprit d'entreprise à long terme. Le Comité applaudit les mesures visant à introduire dans les écoles secondaires le programme d'étude sur l'esprit d'entreprise qui est maintenant en cours de préparation au ministère de l'Éducation, en collaboration avec les conseils scolaires locaux. Le ministère de l'Industrie, du Commerce et de la Technologie et le ministère de l'Éducation travaillent également à un programme de visites scolaires par des entrepreneurs afin d'ouvrir les yeux aux jeunes élèves de l'Ontario à la possibilité d'une carrière comme propriétaire de petite entreprise.

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[1] Albert Shapero, "Why Entrepreneurship?", The Ohio State University, 1984.

Dans les mois qui viennent, nous nous sommes donnés pour tâche de mettre sur pied une deuxième initiative importante en matière de financement des petites entreprises, en profitant de la réussite du programme Nouvelles Entreprises qui a fourni des prêts de démarrage à des milliers de petites entreprises. Il s'agit maintenant de trouver de meilleurs moyens de fournir des capitaux aux entreprises dirigées par les meilleurs de nos entrepreneurs afin de les aider à réaliser leur potentiel de croissance rapide et de devenir des compagnies concurrentielles sur la plan national et international. Selon le point de vue de Peter Drucker, c'est là "où le gouvernement peut apporter la plus grande aide dans une économie d'entreprise" : soulager le mal le plus paralysant des entreprises en expansion, leur manque chronique de capitaux.[2]

Nous considérons le domaine de la réforme fiscale comme un autre domaine crucial pour les petites entreprises dans la période à venir. Le groupe de défense des petites entreprises de l'Ontario a collaboré avec des associations d'affaires et des experts-conseils pour préparer des positions communes concernant les propositions fédérales. La réforme fiscale fait partie de nos priorités et nous en ferions un sujet principal de consultation pour le nouvel organisme consultatif que nous proposons. Le gouvernement fédéral et les provinces doivent s'efforcer de mettre au point une taxe de vente nationale qui soit simple à appliquer pour les propriétaires de petites entreprises et qui réduise plutôt que d'augmenter le fardeau de la paperasse gouvernementale.

## Le deuxième rapport annuel sur les petites entreprises en Ontario

Notre premier rapport à l'Assemblée législative de l'Ontario en décembre 1986 s'était concentré sur la vague remarquablement croissante de création de nouvelles entreprises en Ontario. Les fondations d'entreprise ont doublé depuis la fin des années 1970 pour atteindre 115 000 nouveaux enregistrements au cours de l'exercice se terminant en mars 1987, dont près de 40 000 constitutions en compagnie. Le phénomène de masse de l'esprit d'entreprise que nous avions signalé il y a un an s'est poursuivi et s'est même renforcé lorsque l'économie de l'Ontario a fait un bon en avant. Le rythme des créations d'emplois dans les petites entreprises, qui avait aidé la province à

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[2]Peter Drucker, "Our Entrepreneurial Economy", *Harvard Business Review*, janvier-février 1984.

traverser la récession de 1981-1982, s'est maintenu au cours des années prospères qui ont suivi.

Le rapport de cette année contient de nouveaux renseignements sur la croissance dynamique des petites entreprises en Ontario. Il présente les résultats de recherches sur la provenance des emplois, des explications sur le rendement de nos jeunes compagnies prospères, quelques-uns des obstacles restants à la croissance et les programmes correspondants du gouvernement.

**Le défi des petites entreprises**

Nous nous sommes efforcés, en tant que membres d'un nouveau gouvernement, de nous tourner vers l'avenir et de formuler une nouvelle vision pour les petites entreprises. Le gouvernement qui vient d'être élu a certaines ressemblances et certaines différences évidentes avec celui où nous avions servi au cours des deux dernières années. Le nouveau gouvernement est semblable en ce sens qu'il est profondément et sérieusement engagé à introduire des réformes dans les domaines de la protection des travailleurs, de l'environnement, des services communautaires aux personnes âgées et de l'éducation. La population de l'Ontario a voulu avoir et a obtenu un gouvernement ouvert, progressiste et sensible.

Le nouveau gouvernement a la volonté et le mandat de mettre en oeuvre certains changements. Et même si nous faisons parfois erreur, nous nous inquiétons moins des faux départs et de certaines indécisions que de prendre le risque d'être insensibles et de manquer d'équilibre. Notre tâche consistera à garder le gouvernement au courant des préoccupations des petites entreprises alors qu'il appliquera les réformes que le public attend de lui. Nous savons qu'un climat favorable à l'esprit d'entreprise est une ressource précieuse pour l'Ontario. Nous avons un climat d'affaires superbe et notre province est perçue, à juste titre, comme le meilleur endroit pour lancer une entreprise.

Nous sommes convaincus que pour préserver ces conditions, surtout dans le contexte d'un gouvernement à l'ordre du jour dynamique, nous devrons adopter de nouvelles mesures afin de forcer la machine gouvernementale à l'autodiscipline. Il ne faut jamais que le gouvernement de l'Ontario devienne un mastodonte arbitraire qui écraserait les intérêts des petites entreprises.

Ceci nous amène à proposer, tout d'abord, que le gouvernement réforme le processus de prise de décision du Conseil des ministres de façon à prévoir des consultations formelles et une étude d'impact sur les petites entreprises à chaque fois que l'on envisage de nouvelles politiques, lois ou règlements qui auront des effets importants sur les petites entreprises.

On devrait indiquer l'impact des petites entreprises dans les Déclarations d'impact économique, exigées lors de la préparation des prises de décision au Conseil des ministres.

Deuxièmement, nous recommandons la création d'un Comité consultatif sur les petites entreprises dans le secteur privé pour collaborer avec le ministre de l'Industrie, du Commerce et de la Technologie et le Comité des adjoints parlementaires pour les petites entreprises à l'intégration des principales questions affectant les petites entreprises au programme législatif du gouvernement.

Enfin, nous faisons du financement par actions et de la réforme fiscale nos nouvelles priorités pour l'année à venir. Nous prendrons sur nous de suivre de près les négociations fédérales-provinciales sur la réforme fiscale et nous collaborerons avec le trésorier de l'Ontario pour nous assurer que le système fiscal canadien préserve et renforce la stimulation à devenir un entrepreneur en Ontario et à investir dans l'avenir de nos petites entreprises.

# Points Saillants du Rapport Annuel sur la Situation des Petites Entreprises en Ontario

**Les petites entreprises sont la principale force motrice de la création d'emplois.** Au cours de la période 1976-1984, les emplois ont augmenté de 8 pour 100 dans l'économie canadienne, mais le nombre des emplois dans les entreprises comptant moins de 20 personnes a augmenté de 25 pour 100, ce qui représente 87 pour 100 des nouveaux emplois créés pendant cette période. Les grandes entreprises (employant plus de 500 personnes) ont eu une croissance de 12 pour 100, soit 46 pour 100 des nouveaux emplois.

**La principale source de nouveaux emplois provient de la création de petites entreprises.** Les nouvelles entreprises employant moins de 5 personnes ont connu une augmentation des emplois de 94 pour 100 dans leur catégorie, tandis que les fermetures n'ont éliminé que 41 pour 100 de cette croissance. Les entreprises qui existaient déjà au début de la période ont toutes eu un bon rendement, les expansions ayant entraîné une croissance de 46 pour 100 au niveau de l'emploi tandis que les contractions entraînaient des pertes d'emplois de 11 pour 100. Toutes les autres catégories d'entreprises ont obtenu des résultats bien moindres en comparaison.

**La grande majorité des nouveaux emplois au Canada proviennent d'un nombre remarquablement restreint d'entreprises dynamiques.** Moins de 5 pour 100 des entreprises employant moins de 20 personnes en 1976 étaient passées dans une catégorie supérieure en 1984 — mais elles représentaient 46 pour 100 de tous les nouveaux emplois créés. Ce groupe d'élite se retrouvait d'une façon disproportionnée dans le secteur manufacturier et dans les provinces de l'Ontario et de l'Alberta. Les moyennes entreprises qui sont devenues de grandes entreprises au cours de la même période sont très peu nombreuses (0,04 pour 100 du nombre total d'entreprises), mais elles avaient créé 19 pour 100 des nouveaux emplois.

**Les industries de services sont devenues le principal créateur d'emplois. Les emplois dans ce secteur ont augmenté de 27 pour 100 au cours de 1976-1984, ce qui représentait 75 pour 100 des nouveaux emplois.** Cette performance extraordinaire était due aux entreprises ayant moins de 20 salariés, qui ont connu une

croissance de 41 pour 100. Le domaine le plus actif en matière de création d'emplois est le domaine des services du secteur privé, où il y a eu une croissance d'emplois de 57 pour 100 due à la création de nouvelles entreprises — un taux de création bien plus élevé que n'importe quel autre secteur de l'économie. Le plus grand domaine de croissance est le secteur des services aux entreprises, qui a connu une augmentation d'emplois de 87 pour 100 en 1976-1984 et qui représente maintenant 4 pour 100 des emplois dans le domaine des services. Les autres secteurs ayant eu de bons résultats étaient les services professionnels, ainsi que les divertissements et les loisirs, qui ont tous deux connu des augmentations de près de 40 pour 100 au cours de cette période.

**Les petites entreprises contribuent davantage à l'économie par dollar de recettes que les moyennes et grandes entreprises.** Elles produisent un revenu représentant 29 pour 100 de leurs recettes, au lieu de 20 pour 100 pour le reste.

**Les petites entreprises ont généralement de meilleurs résultats dans les secteurs où les grosses entreprises sont solides.** Dans le domaine manufacturier, les secteurs dominés par les grosses entreprises ont connu une croissance de 2 pour 100, par rapport à -7 pour 100 pour les secteurs dominés par les petites entreprises, le nombre d'emplois dans les entreprises employant moins de 20 personnes ayant augmenté de 49 pour 100 dans le premier secteur et de 40 pour 100 dans le second. La principale exception à cette règle vient des grandes entreprises de services, où les secteurs dominés par les grosses entreprises sont constitués essentiellement d'organismes gouvernementaux dans lesquels les emplois ont augmenté d'un maigre 16 pour 100 en huit ans par rapport à 55 pour 100 dans les entreprises correspondantes du secteur privé.

**Les femmes et les jeunes sont fortement représentés parmi les propriétaires d'entreprise.** Le pourcentage de femmes parmi les propriétaires d'entreprises canadiens est passé de 13 pour 100 en 1970 à plus de 24 pour 100 en 1984. Au cours de l'année passée, 26 pour 100 des prêts Nouvelles Entreprises ont été accordés à des femmes. Plus de 40 pour 100 des nouvelles compagnies de l'Ontario sont dirigées par des personnes âgées de moins de 30 ans.

**Une nouvelle étude trace le profil des entrepreneurs qui dirigent les compagnies vedettes de l'Ontario — les jeunes entreprises qui ont connu la plus forte croissance au niveau des ventes et des emplois.** Ce sont presque tous des hommes, assez âgés, diplômés de l'université, des fils aînés et des enfants

d'entrepreneurs ou de cadres supérieurs. Ils ont eu une carrière de cadre, de gérant ou de propriétaire et un tiers d'entre eux n'avaient aucune expérience directe préalable dans leur domaine. Ils attribuent principalement leur succès à la qualité de leur produit, de leur gestion et de leurs employés. Ils perçoivent certaines faiblesses dans la gestion, la concurrence et les contraintes financières. Leur investissement de départ est 72 fois supérieur à la moyenne pour l'ensemble des petites entreprises. La moitié d'entre eux n'ont pas utilisé du tout leur propre argent pour démarrer.

**Les petites entreprises ne se soucient guère des systèmes de personnel élaborés.** Seulement cinq pour cent d'entre elles ont un directeur du personnel. Un quart d'entre elles ont des descriptions d'emploi et un sixième ont des évaluations d'emploi officielles. Les salaires sont établis d'après le jugement du propriétaire selon le mérite, l'aptitude à payer de l'entreprise et la situation du marché de l'emploi. Pour les entreprises ayant moins de cinq employés, l'aptitude à payer est le critère principal. Cependant, les petites entreprises ont beaucoup de plans d'encouragement pour leurs employés et plus de la moitié d'entre elles offrent les principaux avantages sociaux à court terme à leurs employés.

**Les charges sociales ont augmenté de 90 pour 100 au cours des six dernières années, principalement à cause d'une augmentation de 149 pour 100 des primes d'accidents du travail.** Elles coûtent maintenant 8,2 pour 100 du salaire au lieu de 6 pour 100 il y a six ans, ce qui risque de mettre un frein à l'embauche.

**Le marché officieux du capital de risque est toujours sous-développé au Canada.** Dans notre province, le gouvernement a aidé la Chambre de commerce de l'Ontario a établir le RIIO (Réseau d'investissement informatisé de l'Ontario), afin de rapprocher les entrepreneurs et les investisseurs. Les investisseurs sont satisfaits de la situation actuelle, mais les entrepreneurs aimeraient voir la création d'un réseau national qui les ferait mieux connaître aux investisseurs privés.

**Les investissements réalisés sur le marché officiel canadien du capital de risque ont diminué de 16 pour 100 pour atteindre 206 millions de dollars en 1986.** Les investissements réalisés en Ontario ont cependant augmenté de 24 pour 100 et représentaient 31 pour 100 de l'ensemble.

**Le programme Nouvelles Entreprises, lancé en septembre 1986, est conçu pour garantir des prêts allant jusqu'à 15 000 $ pour le démarrage,** à condition que l'investisseur apporte des fonds

équivalents au montant du prêt. Au cours de sa première année, le programme a garanti plus de 3 200 prêts totalisant 43 millions de dollars.

**Les Sociétés de développement de l'Ontario se sont lancées dans un important programme de modernisation et d'expansion des installations**, notamment en assumant la responsabilité de la Société Innovation Ontario et du programme Nouvelles Entreprises. Les prêts non remboursés totalisent maintenant 831 millions de dollars, pour un actif total autorisé de 1,2 milliard de dollars.

**Les entrepreneurs qui réussissent sont des planificateurs convaincus** et, même s'ils n'aiment pas l'appeler par son nom, leur planification est extrêmement souple dans la pratique. Leur planification comporte quatre volets fondamentaux — la planification de projet, l'établissement d'objectifs, l'établissement d'orientations et la planification d'ensemble. Une enquête auprès des entrepreneurs qui réussissent a révélé qu'environ la moitié fait une planification d'ensemble, un quart fait une planification de projet, un dixième établit des objectifs et un dixième des orientations, tandis que 4 pour 100 ne planifient pas du tout. Le signe distinctif d'un entrepreneur est son aptitude à reconnaître et à créer les opportunités. La moitié des entrepreneurs croient qu'ils créent leurs propres opportunités, 40 pour 100 croient que les opportunités se présentent devant eux par hasard et 10 pour 100 croient les deux.

# Annual Report on Small Business in Ontario

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# Highlights of the Annual Report on Small Business in Ontario

**Small firms are the major force in job creation.** During 1976-84, jobs in the Canadian economy increased by 8 per cent but firms employing fewer than 20 people increased employment by 25 per cent, accounting for 87 per cent of the new jobs during the period. Big firms (employing more than 500 people) grew 12 per cent, accounting for 46 per cent of the new jobs.

**The major contribution to new jobs comes from births of small firms.** New firms employing fewer than 5 people increased employment by 94 per cent in their size category, while exits took away only 41 per cent of that gain. Firms that were already operating at the beginning of the period also performed well, increasing employment by 46 per cent through expansions against a loss of only 11 per cent from contractions. All other size categories pale in comparison.

**The bulk of new jobs in Canada comes from a remarkably small number of dynamic firms.** Less than 5 per cent of the firms employing fewer than 20 people in 1976 grew into a higher size category by 1984 — but they accounted for 46 per cent of all new jobs created. This elite group came disproportionately from the manufacturing sector and from Ontario and Alberta. Mid-sized firms that grew into big businesses during the same period were few and far between (0.04 per cent of the total number of firms) but they accounted for 19 per cent of the new jobs.

**Service industries have become the major job creator, increasing employment by 27 per cent to account for 75 per cent of new jobs in 1976-84.** The stellar performance came from firms with fewer than 20 employees, which grew 41 per cent. The most active sector for new jobs is private sector services, where there was a 57 per cent growth in jobs from new firms — a far higher rate of formation than in any other part of the economy. The biggest sector for growth is services to business, which increased employment 87 per cent in 1976-84, taking its share of services employment to 4 per cent. Other good performers were professional services and amusement and recreation, which both grew at close to 40 per cent over the period.

**Small firms contribute more to the economy per dollar of revenues than mid- and large-sized firms.** They generate income of 29 per cent of their revenues versus 20 per cent for the rest.

**Small firms generally perform better in sectors where big businesses are strong.** In manufacturing, big-business dominated sectors grew at 2 per cent compared to -7 per cent for small-business dominated sectors, with jobs in firms employing fewer than 20 people growing 49 per cent in the former sector and 40 per cent in the latter. The major exception is large service firms where the big-business dominated sectors are largely government agencies in which jobs increased a sedate 16 per cent in eight years compared with 55 per cent in their private-sector counterparts.

**Women and young people are strongly represented in business ownership.** The percentage of women among Canada's business owners rose from 13 per cent in 1970 to over 24 per cent in 1984. In the past year, women accounted for 26 per cent of New Ventures loans. Over 40 per cent of Ontario's new companies are headed by people under 30 years of age.

**The entrepreneurs who head Ontario's superstar companies — young firms that grew the fastest in sales and employment — are profiled in a new study.** They tend to be almost entirely male, older, university graduates, oldest sons and children of entrepreneurs or executives. They come from executive, manager or owner careers and a third of them have no previous direct experience in their line of business. They attribute their success primarily to a quality product, good management and good people. Their perceived weaknesses are management, competition and financial constraints. Their investment at startup is 72 times the average for the general population of small businesses. Half of them didn't use any of their own money at startup.

**Small firms don't have much time for fancy personnel systems.** Only five per cent have a personnel manager. A quarter have job descriptions and one-sixth have formal job evaluations. Salaries are set by the owner's judgement on merit, ability to pay and the marketplace. For firms with fewer than five employees, ability to pay is the top criterion. Small firms do, however, have a lot of incentive plans for employees and more than half offer the major short-term employee benefits.

**Payroll taxes have increased 90 per cent in the past six years, due largely to a 149 per cent increase in workers' compensation premiums.** They now cost 8.2 per cent of payroll versus 6 per cent six years ago, threatening to impede decisions to hire.

**The informal risk-capital market is still underdeveloped in Canada.** In this province, the government has helped the Ontario

Chamber of Commerce set up COIN, the Computerized Ontario Investment Network, to bring entrepreneurs and investors together. Investors are content with the current status, but entrepreneurs would like to see a national network with greater exposure to private investors.

**Investments made in Canada's formal venture capital market were down 16 per cent to $206 million in 1986.** Investments in Ontario, however, were up 24 per cent to take a 31 per cent share of the total.

**The New Ventures Program, started in September 1986, is designed to guarantee loans of up to $15,000 available to startups,** provided the investor matches the loan dollar for dollar. In its first year, the program guaranteed more than 3,200 loans for a total of $43.0 million.

**The Ontario Development Corporations have embarked on a major program to modernize and expand operations,** including responsibility for Innovation Ontario Corporation and the New Ventures program. Loans outstanding now total $831 million, with an authorized asset-base of $1.2 billion.

**Successful entrepreneurs are avid planners** — although they don't like to call it that — and their application of planning is extremely flexible. They use four basic types of planning — project planning, goal setting, direction-setting and full-scale planning. A survey of successful entrepreneurs found about half do full-scale planning, a quarter plan projects, a tenth each set goals or directions and 4% don't plan at all. The distinguishing skill of an entrepreneur is the recognition and creation of opportunities. Half the entrepreneurs believe they create their own opportunities, 40 per cent believe that opportunities come their way by chance and 10 per cent believe both.

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# 1 The Setting for Small Business

Small business in Canada — and in most western nations — is enjoying explosive growth, thanks to three major, interconnected trends.

- The rate of change in technology and markets has given an edge to small, innovative and flexible firms that can now compete with large companies to a degree that would have been inconceivable even 10 years ago.
- Fierce international competition is forcing large organizations to slash their manpower in an effort to control costs. The displaced managers are being thrust, often unwillingly, into the role of entrepreneur. Once there, many have found they like it and are good at it.
- Finally, an important part of the crash program of retrenchment by large organizations has been the subcontracting to outside suppliers of the production of goods and services previously produced by in-house departments. This has created a growing demand for innovative suppliers, most of which are small businesses.

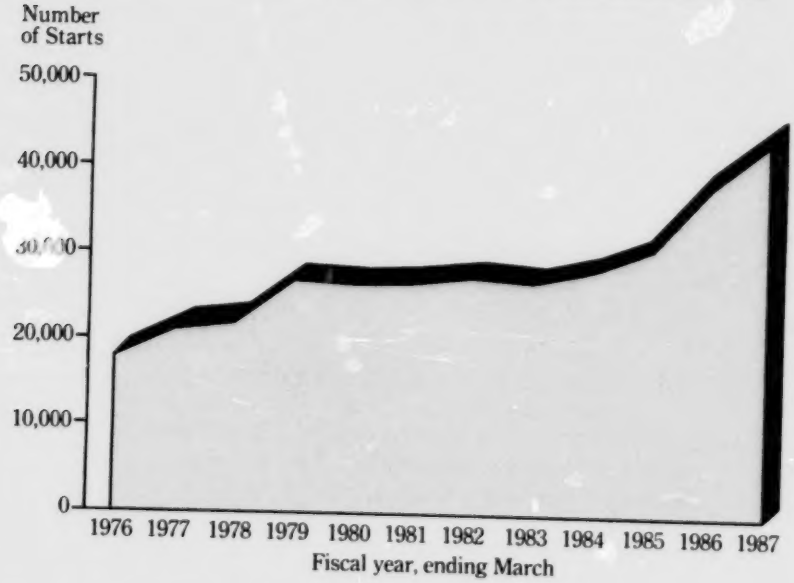
Ontario's diversified economy, located so close to the major North American markets, has benefitted from all three trends, perhaps more than any other province in Canada. In the context of strong growth in Gross Provincial Product, employment and capital investment, and declining unemployment (see Table 1.3 on page 60), Ontario is enjoying an unprecedented surge of entrepreneurial activity. Chart 1.1 shows how new business incorporations — the seeds of future growth — are running at record levels.

New incorporations do not, of course, reflect all new businesses. A much greater number are established as unincorporated businesses. In the year to March, 1987, a record 115,000 new businesses, almost two-thirds of them unincorporated, were registered.[1] This was 16% more

[1]Not all registrations translate into instant new businesses. Some of them may not be activated for several years, others are new registrations of parts of existing businesses. This has been taken into account in the estimate of 115,000 registrations but it's likely there are fewer operating new entrants into business than even this figure implies. New entrants that employed people totalled about 60,000 in 1986-87.

**Chart 1.1**[2] *New Incorporations in Ontario, 1975-1986*

Number of companies incorporated




than in the previous year and brought the total number of active businesses in the province to more than 300,000.

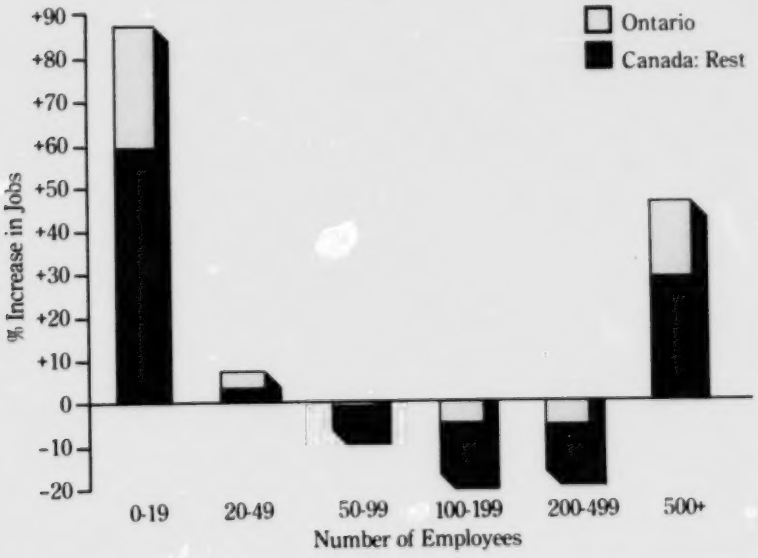
Partly as a result of this rapid rate of new business formations, Ontario firms employing fewer than 20 people created 27% of all new jobs in Canada between 1976-1984. The next best was Quebec, where the smallest firms provided 20% of total new jobs. Overall, Ontario accounted for 30% of all new jobs during this period — a figure that is bound to be surpassed by a wide margin when the statistics for 1985 and 1986 are added, as the economic recovery in Canada during the past two years has centred almost exclusively in Ontario.

Chart 1.2 shows that firms employing fewer than 20 people were the most significant source of new jobs during this period. They provided 87% of the total new jobs in Canada, a third of it in Ontario. Next highest was big business, which contributed 46% of the total new

[2]Source: Internal research, Ministry of Industry, Trade & Technology, 1987, based on data from the Ministry of Consumer & Commercial Relations.

**Chart 1.2**[3] *Where the New Jobs Came From: 1976-1984*

Percentage distribution of net employment change, by firm size, Canada and Ontario




jobs, a quarter of it in Ontario. Mid-sized firms employing between 100-499 people suffered a net decline of 35% of the new jobs created, a third of it in Ontario.

The structure of the Ontario economy is tilted toward bigger businesses compared to the Canadian economy. In 1984 (the latest available complete statistics), big businesses with more than 500 employees employed 44% of all private-sector workers in Canada and 48% in Ontario. Firms employing fewer than 20 people gave jobs to 22% of the total private-sector workforce in Canada and 19% in Ontario.

To put it another way, Ontario is home to 40% of the Canadian workforce, ranging from 34% in firms employing fewer than five people to 44% in firms employing more than 500 people.

Chart 1.3 shows the breakdown, by size of firm, of the number of private-sector firms in the province and their share of total employment.

[3]Source: *"A Study of Job Creation in Canada, 1976-1984"*. Statistical Analysis, Department of Regional Industrial Expansion. 1986.

**Chart 1.3**[4] *Where the Jobs Are, Ontario, 1984*

Percentage distribution, by size of firm, of the number of private-sector firms and their employees

This is an impressive enough demonstration of the importance of small firms to the economy in terms of the employment they provide. However, it still understates the role of small businesses. The true measure of value in the economy is value added — the net contribution of businesses to the Gross National Product. Value added consists of three main factors, of which income generated is by far the largest component. This consists of wages, salaries, depreciation and pre-tax profits (or losses). The other two are capital consumption — investments in capital and spending on repairs — and changes to physical inventory. These two accounted for 10% and 1% respectively of Ontario's Gross Provincial Product in 1984.

[4]Source: *"Demographic and Earnings Profile of Business Employment, 1984"*. Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987. Employment is calculated as Full-Year Equivalent, which is obtained by dividing payroll totals by the average wage in each sector. This overstates employment in industries with a high proportion of part-time workers.

**Table 1.1**[5] *Small Firms Pack a Bigger Punch*

Income generated by Canadian firms as a percentage of annual revenues in 1984

| Sector | Income generated as a percentage of revenues in: | | | |
|---|---|---|---|---|
| | All firms | Small* firms | Medium* firms | Large* firms |
| | % | % | % | % |
| Primary | 39 | 42 | 42 | 38 |
| Manufacturing | 22 | 36 | 27 | 20 |
| Service** | 33 | 38 | 27 | 27 |
| Trade | 13 | 17 | 12 | 11 |
| **All industries** | **21** | **29** | **20** | **19** |

Note: *Small firms are defined as having annual sales of less than $2 million; medium firms have annual sales of $2 million to $20 million; large firms have sales of $20 million and over.
** Service comprises construction, real estate operators and insurance agents, and business and personal services.

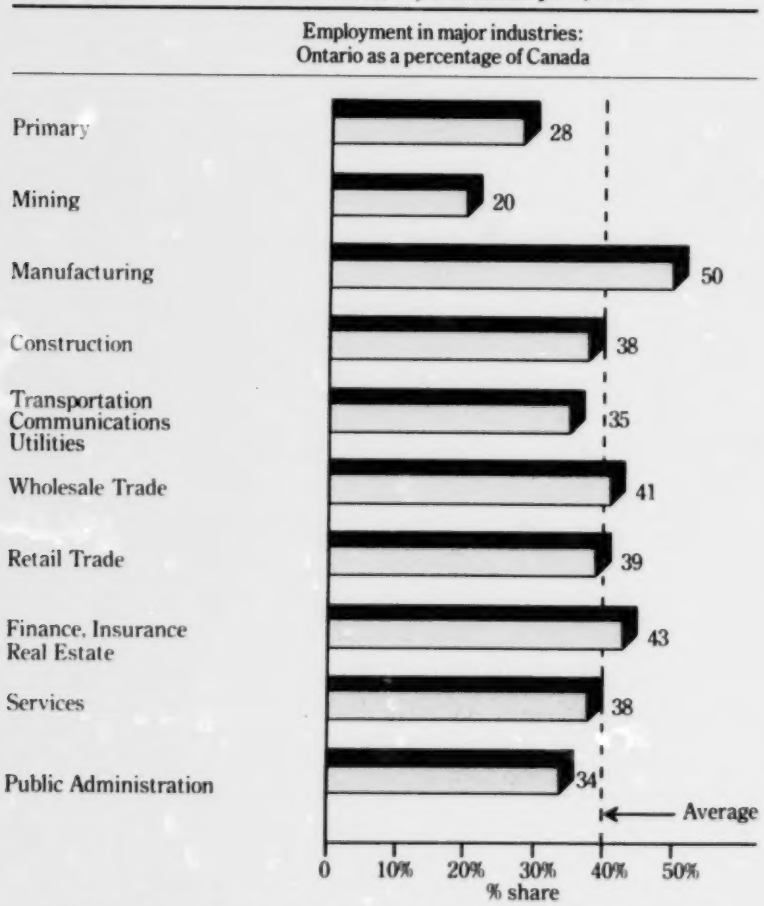
Table 1.1 shows that, in terms of income generated per dollar of revenues, small firms pack a decidedly heavier punch than do medium- or large-sized firms — about half as much again as larger firms.

A further important conclusion from this table is that services have a significantly higher component of income generated than manufacturing — particularly in large firms but in small firms, too, to a lesser degree. Although services are growing faster than any other branch of the economy, manufacturing has been the traditional target of economic development projects.

The Ontario economy is particularly strong in manufacturing. One half of Canada's manufacturing jobs were in Ontario in 1984. It has almost certainly risen further since then, but more recent statistics are not available. As Chart 1.4 shows, Ontario is also well represented in wholesale trade and in finance, insurance and real estate, but has a significantly below-average representation in the primary industries and mining — which may partly explain why Ontario did not suffer as badly as the other provinces from the 1981-1982 recession.

[5]Source: Small Business Advocacy, Small Business Branch, Ministry of Industry, Trade & Technology. Based on *"Small Business in Canada: A Statistical Profile 1982-1984"* and *"Private and Public Investment in Canada: Intentions"*, both by Statistics Canada.

**Chart 1.4**[6] *Ontario's Share of Canadian Jobs, 1984*




Ontario's contribution to the national economy (39%) is greater than its share of population (36%) — but its share of the small businesses in Canada (33%) is smaller than its share of population. Table 1.2 shows that small businesses are most prominent in Quebec and the West, but Ontario's small businesses are comfortably the most profitable.

[6]Source: *"Demographic and Earnings Profile of Business Employment, 1984"*. Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.

**Table 1.2**[7] *Regional Contribution to the Economy, 1983*

| Region | Population* | % of Canada | GDP* | % of Canada | Small business** Total revenues | % of Canada | Pre-tax profit | % of Canada |
|---|---|---|---|---|---|---|---|---|
| | millions | % | $billion | % | $billion | % | $billion | % |
| B.C. | 2.9 | 11 | 51 | 11 | 20 | 15 | 0.8 | 12 |
| Alberta | 2.4 | 9 | 62 | 14 | 16 | 12 | 0.7 | 10 |
| Sask./Man. | 2.1 | 8 | 36 | 8 | 10 | 8 | 0.5 | 8 |
| **Ontario** | **9.2** | **36** | **175** | **39** | **44** | **33** | **2.4** | **36** |
| Quebec | 6.6 | 26 | 100 | 22 | 34 | 26 | 1.8 | 27 |
| Atlantic | 2.3 | 9 | 27 | 6 | 9 | 7 | 0.4 | 6 |
| **Canada** | **25.6** | **100** | **453** | **100** | **133** | **100** | **6.7** | **100** |

* These statistics are for 1986.
** Small business is defined as having annual sales of less than $2 million.

[7]Source: *"Small Business in Canada, 1983: Provincial Distributions"*, Statistics Canada.

**Table 1.3**[a] *The Ontario Economy*

| | Amount | | | Percentage increase | | |
|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1985 | 1986 | 1987 |
| | | | | % | % | % |
| Gross provincial product ($ billion) | 179.9 | 194.6 | 209.0 | 4.7* | 4.6* | 3.5* |
| Business investment ($ billion) | 19.2 | 22.4 | 24.0 | 15.2 | 16.7 | 7.1 |
| Housing starts (000s) | 64.9 | 81.5 | 82.0 | | | |
| Retail sales ($ billion) | 49.0 | 53.4 | 57.4 | 12.7 | 9.0 | 7.5 |
| Corporate profits (before tax)($ bill.) | 16.3 | 17.4 | 18.9 | 8.1 | 7.8 | 7.1 |
| Labour force (000s) | 4,787 | 4,897 | 5,005 | 2.6 | 2.3 | 2.2 |
| Unemployment rate (% of labour force) | 8.0 | 7.0 | 6.5 | | | |
| Job creation (000s) | 159 | 153 | 125 | | | |

* These percentage increases are in real terms, after adjusting for inflation.

[a]Source: Ministry of Treasury & Economics. Budget papers. 1987.

The strong performance in Ontario is based on a diversified economy that has rich resources, both natural and human. Table 1.3 outlines the progress of the Ontario economy over the past three years.

The tables on the following pages show the distribution of Ontario firms, by industry and firm size (Table 1.4) and by industry and employees (Table 1.5).

**Table 1.4**[a] *Distribution of Ontario Firms, 1984*

Distribution, by industry and firm size, of private-sector firms

| Industry | Percentage of firms that are: Small firms | Medium firms | Large firms | Total | Number of firms |
|---|---|---|---|---|---|
| | % | % | % | % | # |
| **Primary** | **99.9** | **0.1** | **—** | **100.0** | **15,435** |
| **Mining** | **89.3** | **5.5** | **5.2** | **100.0** | **807** |
| **Manufacturing** | **90.7** | **6.7** | **2.6** | **100.0** | **19,834** |
| • Food & beverage | 88.6 | 6.8 | 4.6 | 100.0 | 1,773 |
| • Tobacco products | 44.5 | 11.1 | 44.4 | 100.0 | 9 |
| • Rubber & plastics | 87.9 | 9.4 | 2.7 | 100.0 | 733 |
| • Leather | 77.7 | 19.5 | 2.8 | 100.0 | 215 |
| • Textiles | 85.9 | 10.2 | 3.9 | 100.0 | 547 |
| • Knitting mills | 74.8 | 22.7 | 2.5 | 100.0 | 119 |
| • Clothing | 88.2 | 9.5 | 2.3 | 100.0 | 768 |
| • Wood | 93.9 | 5.2 | 0.9 | 100.0 | 1,115 |
| • Furniture & fixtures | 95.6 | 3.7 | 0.7 | 100.0 | 1,520 |
| • Paper & allied | 77.7 | 12.1 | 10.2 | 100.0 | 372 |
| • Printing, publishing | 95.3 | 3.5 | 1.2 | 100.0 | 2,843 |
| • Primary metal | 77.6 | 15.3 | 7.1 | 100.0 | 255 |
| • Metal fabricating | 94.6 | 4.1 | 1.3 | 100.0 | 3,489 |
| • Machinery | 89.2 | 8.6 | 2.2 | 100.0 | 1,262 |
| • Transportation equipm't | 81.0 | 12.9 | 6.1 | 100.0 | 723 |

| | | | | | |
|---|---|---|---|---|---|
| • Electrical products | 85.1 | 9.3 | 5.6 | 100.0 | 838 |
| • Non-metal mineral prod. | 91.1 | 6.0 | 2.9 | 100.0 | 580 |
| • Petroleum & coal prod. | 67.4 | 10.9 | 21.7 | 100.0 | 46 |
| • Chemicals | 79.0 | 14.0 | 7.0 | 100.0 | 686 |
| • Miscellaneous manuf'ring | 94.7 | 4.3 | 1.0 | 100.0 | 1,941 |
| **Construction** | **99.2** | **0.7** | **0.1** | **100.0** | **30,589** |
| **Transport./Commun./Util.** | **96.3** | **2.7** | **1.0** | **100.0** | **9,274** |
| **Wholesale trade** | **97.1** | **2.5** | **0.4** | **100.0** | **18,453** |
| **Retail trade** | **99.0** | **0.8** | **0.2** | **100.0** | **44,094** |
| **Finance/Ins'ce/Real est.** | **98.0** | **1.4** | **0.6** | **100.0** | **17,879** |
| **Services** | **98.3** | **1.2** | **0.5** | **100.0** | **96,249** |
| • Education | 87.3 | 5.7 | 7.0 | 100.0 | 2,065 |
| • Health & welfare | 97.3 | 1.8 | 0.9 | 100.0 | 16,094 |
| • Religious organizations | 99.8 | 0.2 | – | 100.0 | 5,685 |
| • Amusement, recreation | 98.5 | 1.2 | 0.3 | 100.0 | 4,841 |
| • Business management | 98.3 | 1.4 | 0.3 | 100.0 | 23,137 |
| • Personal services | 99.8 | 0.2 | – | 100.0 | 17,639 |
| • Accommodation, food | 98.4 | 1.3 | 0.3 | 100.0 | 16,869 |
| • Miscellaneous services | 98.6 | 1.1 | 0.3 | 100.0 | 9,919 |
| **Unclassified** | **100.0** | **—** | **—** | **100.0** | **11,726** |
| **Total — all industries** | **97.9** | **1.6** | **0.5** | **100.0** | **264,350** |

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499; large companies more than 500.

*Source: *"Demographic and Earnings Profile of Business Employment, 1984"*. Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.

**Table 1.5**[10] *Distribution of Ontario Workers, 1984*

Distribution, by industry and firm size, of private-sector employment

| Industry | Percentage of employment in: Small firms | Medium firms | Large firms | Total | Total employment | Share of total |
|---|---|---|---|---|---|---|
| | % | % | % | % | 000s | % |
| **Primary** | **88.7** | **11.3** | **—** | **100.0** | **26** | **0.7** |
| **Mining** | **12.6** | **11.3** | **76.1** | **100.0** | **38** | **1.1** |
| **Manufacturing** | **21.0** | **20.8** | **58.2** | **100.0** | **984** | **27.1** |
| • Food & beverage | 15.7 | 16.4 | 67.9 | 100.0 | 102 | |
| • Tobacco products | n/a | n/a | 93.5 | 100.0 | 3 | |
| • Rubber & plastics | 21.7 | 26.7 | 51.6 | 100.0 | 45 | |
| • Leather | 21.1 | 43.7 | 35.2 | 100.0 | 15 | |
| • Textiles | 18.8 | 25.3 | 55.9 | 100.0 | 29 | |
| • Knitting mills | 23.2 | 61.5 | 15.3 | 100.0 | 7 | |
| • Clothing | 38.1 | 34.6 | 27.3 | 100.0 | 31 | |
| • Wood | 46.9 | 41.8 | 11.3 | 100.0 | 22 | |
| • Furniture & fixtures | 48.2 | 32.5 | 19.3 | 100.0 | 28 | |
| • Paper & allied | 10.1 | 10.5 | 79.4 | 100.0 | 54 | |
| • Printing, publishing | 31.7 | 22.7 | 45.6 | 100.0 | 68 | |
| • Primary metal | 5.8 | 12.4 | 81.8 | 100.0 | 67 | |
| • Metal fabricating | 44.3 | 21.7 | 34.0 | 100.0 | 93 | |
| • Machinery | 29.3 | 31.4 | 39.3 | 100.0 | 52 | |
| • Transportation equipm't | 6.0 | 14.2 | 79.8 | 100.0 | 133 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| • Electrical products | 10.7 | 12.9 | 76.4 | 100.0 | 91 | |
| • Non-metal mineral prod. | 21.3 | 19.1 | 59.6 | 100.0 | 25 | |
| • Petroleum & coal prod. | 1.9 | 2.2 | 95.9 | 100.0 | 16 | |
| • Chemicals | 13.1 | 25.5 | 61.4 | 100.0 | 57 | |
| • Miscellaneous manuf'ring | 36.9 | 26.5 | 36.6 | 100.0 | 44 | |
| **Construction** | **73.2** | **18.8** | **8.0** | **100.0** | **156** | **4.3** |
| **Transport./Commun./Util.** | **20.1** | **14.1** | **65.8** | **100.0** | **255** | **7.0** |
| **Wholesale trade** | **57.7** | **24.0** | **18.3** | **100.0** | **223** | **6.2** |
| **Retail trade** | **46.1** | **10.2** | **43.7** | **100.0** | **504** | **13.9** |
| **Finance/Ins'ce/Real est.** | **26.5** | **12.5** | **61.0** | **100.0** | **262** | **7.2** |
| **Services** | **38.3** | **15.2** | **46.5** | **100.0** | **1,173** | **32.3** |
| • Education | 4.6 | 7.5 | 87.9 | 100.0 | 274 | |
| • Health & welfare | 27.9 | 19.0 | 53.1 | 100.0 | 266 | |
| • Religious organizations | 75.0 | 20.8 | 4.2 | 100.0 | 14 | |
| • Amusement, recreation | 58.8 | 19.3 | 21.9 | 100.0 | 43 | |
| • Business management | 51.8 | 21.4 | 26.8 | 100.0 | 200 | |
| • Personal services | 78.4 | 14.4 | 7.2 | 100.0 | 45 | |
| • Accommodation, food | 61.9 | 13.9 | 24.2 | 100.0 | 225 | |
| • Miscellaneous services | 44.6 | 16.3 | 39.1 | 100.0 | 105 | |
| **Unclassified** | **78.8** | **6.9** | **14.3** | **100.0** | **10** | **0.3** |
| **Total — all industries** | **35.4** | **16.3** | **48.3** | **100.0** | **3,633** | **100.0** |

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499; large companies more than 500.

[10] *Ibid.*

# 2 Job Creation

Small businesses are enhancing, year by year, their central role in the creation of new jobs for a Canadian economy overburdened by high jobless rates. Table 2.1 below shows that firms employing fewer than 20 people accounted for 87% of the new jobs in the private sector during 1976-84. In the previous study covering the years 1974-1982[1] (see *The State of Small Business*, 1986), firms of this size were responsible for 55% of the new jobs.

Equally significantly, the latest study shows that the role of the largest firms has also expanded considerably. Firms employing more than 500 people accounted for 46% of the new jobs in 1976-84 compared with 39% in the earlier study.

**Table 2.1**[2] *Shares of Employment Growth, Canada, 1976-1984*

Percentage distribution, by industry and firm size, of the net change in employment

| | Firm size by number of employees | | | | | | |
|---|---|---|---|---|---|---|---|
| **Industry** | **0-19** | **20-49** | **50-99** | **100-199** | **200-499** | **500+** | **Total** |
| Agriculture | 2.3 | 0.1 | — | −0.1 | −0.1 | 0.2 | 2.3 |
| Forestry | 0.5 | −0.2 | −0.1 | −0.3 | 0.1 | 0.4 | 0.4 |
| Fishing | 0.4 | — | — | — | −0.1 | −0.1 | 0.2 |
| Mines | 1.8 | 0.2 | 0.2 | 0.1 | 0.2 | 2.1 | 4.6 |
| Manufacturing | 15.5 | 1.5 | −4.1 | −10.1 | −13.4 | −1.6 | −12.3 |
| Construction | 3.0 | −4.9 | −4.4 | −4.8 | −2.3 | −1.6 | −15.0 |
| Transport | 5.0 | 0.1 | −0.3 | −1.1 | −0.1 | 9.6 | 13.1 |
| Trade | 21.6 | −0.5 | −3.1 | −4.2 | −1.9 | 9.1 | 21.0 |
| Finance | 5.8 | 1.6 | 0.5 | −0.4 | −0.5 | 2.8 | 9.8 |
| Services | 31.4 | 9.2 | 5.4 | 3.3 | 1.0 | 25.3 | 75.7 |
| **Total** | **87.3** | **7.2** | **−5.9** | **−17.6** | **−17.1** | **46.2** | **100.0** |

[1] *"A Study of Job Creation in Canada, 1974-1982"*. Statistical and Data Base Services, Department of Regional Industrial Expansion. 1985.
[2] Source: *"A Study of Job Creation in Canada, 1976-1984"*. Statistical Analysis, Department of Regional Industrial Expansion. 1986.

## Mid-Sized Firms are Declining

The polarization of job opportunities at the two ends of the spectrum of firm sizes reflects the collapse of employment in Canada's mid-sized firms. Firms employing 100-499 people lost the equivalent of 35% of the net new jobs created during 1976-84, compared with a relatively moderate cutback of 3% in the earlier study.

These numbers represent shares of the net new jobs created in each period and it's important to note that the earlier period missed a good part of the corporate retrenchment following the 1981-82 recession. The shares of new jobs are therefore based on a much smaller pie in the later period, when total jobs grew 8%, compared to the earlier period, when jobs grew 25%. Nonetheless, the smallest firms still performed better than the larger firms. They grew 25% compared to 49% in the earlier period, while the biggest firms slashed their growth to 12% from 31%.

Firms employing fewer than 20 people were a greater force for new jobs than the large firms in every industrial category except two. Big business edged out small business as the primary job creator in mining (where three-quarters of all jobs are in big companies) and in transportation, communications and utilities (where two-thirds of the jobs are in big companies). In both these categories, small firms employ no more than 20% of the workforce.

The collapse of employment in the mid-sized firms appears to be a devastating indictment of the strength of these firms in Canada. Table 2.2 shows that, of the 7,000 mid-sized firms in this study in 1976, 175 expanded into the largest size category. This handful of firms created between them one-sixth of all new jobs during the period. Another 124 firms started out in the largest size category but shrank into the mid-sized category, cancelling out two-thirds of the employment gains made by the dynamic mid-size firms.

At the other end of the mid-size category, 1,716 small firms grew into mid-size firms, more than compensating for the 1,279 mid-sized firms that declined to become small firms. Statistics are not available for the births of new, mid-sized firms during 1976-84, but other studies indicate they were well below the 2,338 firms that became inactive because of takeovers or failures. The net effect was a dramatic shrinkage in the mid-sized firms.

The damage to mid-sized firms was heaviest in Quebec, where more than half the job losses for mid-sized firms were concentrated. The losses in Quebec were caused primarily by radical cutbacks in the soft manufacturing industries — leather, textiles, knitting, clothing and wood

**Table 2.2**[3] *Growing, Shrinking and Dying*

1984 distribution, according to size and status, of Canadian firms that existed in 1976

| Size of firms in 1976 | Size of firms in 1984 | | | | |
|---|---|---|---|---|---|
| | **Small** | **Mid** | **Large** | **Inactive** | **Total** |
| Small | 239,991 | 1,716 | 9 | 172,851 | 414,567 |
| Mid | 1,279 | 3,236 | 175 | 2,338 | 7,028 |
| Large | 11 | 124 | 610 | 242 | 987 |
| **Total** | **241,281** | **5,076** | **794** | **175,431** | **422,582** |

— which accounted for almost 90% of total job losses in manufacturing and where Quebec has a disproportionate share of Canadian production. Ontario accounted for the bulk of the remaining losses in mid-sized firms, but the rate of job losses was only 12.5% of 1976 employment compared to 25% in Quebec and 4% in the rest of Canada.

This may explain why the job losses have been so severe in mid-size firms but it doesn't illuminate the issue of why more small firms aren't growing into mid-size and, ultimately, large firms. It's clear the economic environment can support a number of dynamic small firms that make enormous contributions to job creation — but there are just not enough of them.

### New Jobs are in Services, not Manufacturing

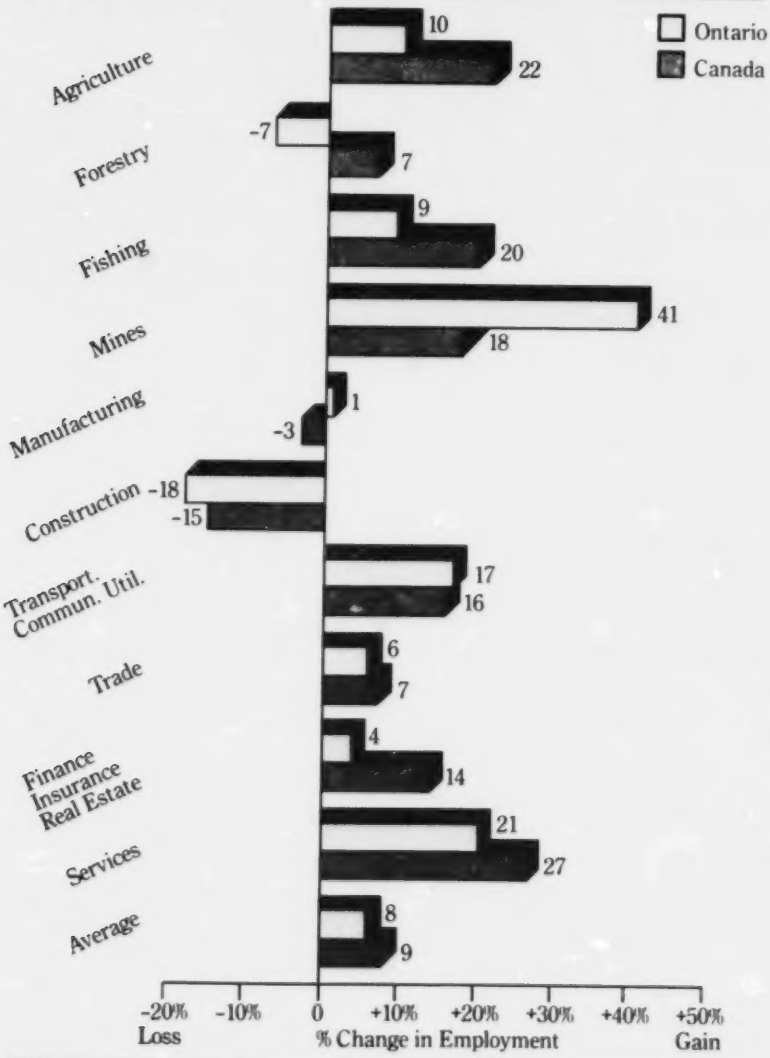
A second major contrast with the earlier study of job creation is the shift of activity out of manufacturing and into services. In the later period, services accounted for more than 75% of all new jobs, while manufacturing contributed a drag of 12% on new jobs. In the 1974-1982 study, services accounted for 37% of the new jobs, manufacturing for 10%. For a more detailed look at these two industries, see Tables 2.3 and 2.4 in this chapter. Trade was also a significant contributor of new jobs, with a 21% share of net employment change, all in firms with fewer than 20 employees.

Ontario's growth patterns within these industries were strikingly different from Canada's. Chart 2.1 shows that Ontario's growth was weaker (or its cutbacks bigger) than the Canadian average in all but three industries — mining, manufacturing, and transportation, communications and utilities.

[3] *Ibid.*

**Chart 2.1**[4] *Job Growth and Loss, Canada and Ontario, 1976-1984*

Change in employment, by industry, expressed as a percentage of 1976 employment




[4] *Ibid.*

Perhaps the most notable was finance, insurance and real estate, in which employment grew 4% between 1976-1984 in Ontario versus 14% in Canada. In the earlier study, between 1974-1982, employment in this industry grew 20% in Ontario, 50% in Canada.

There is an important caveat to these statistics. The main reason Ontario was running slightly behind the average for the whole country was that the impact of the commodity crunch in the early 1980s had not yet been absorbed by the West. Accordingly, the phenomenal gains in the second half of the 1970s in Alberta and B.C. make the performance of the western provinces appear impressive in the period 1976-84. Alberta, for example, is shown as having increased its workforce 38% to take a 36% share of total new jobs during 1976-84. (In the 1974-82 study, Alberta's workforce grew 95%.) Alberta's extraordinary performance during these years raised the national average of job growth to 8% during 1976-84 while the other nine provinces between them grew only 5.6% (Ontario grew 6% to take a 30% share of all new jobs). The wrenching adjustment of the 1982-87 recession in Alberta and B.C. has virtually wiped out all their earlier gains. When the statistics for 1985-86 are added, Ontario's performance will exceed the national average.

Table 2.3 shows some remarkably divergent trends in the manufacturing sector. The smallest category of businesses, employing fewer than 20 people, had a net growth of 42% over 1976-1984, those employing 20 to 49 people had a marginal 4% growth and every other size category declined — even the largest companies.

Small businesses grew strongly even in the most devastated industries. In leather, textiles, clothing and knitting, firms employing fewer than 20 people grew by an average 54%, even as firms employing more than 500 declined by 26%, on average.

The average decline of 1% in big businesses camouflages a great variety among industries in different states of health. In three industries — transportation equipment (mainly cars), primary metals (mainly steel) and printing and publishing — the big firms grew by 15% between 1976-1984. In the same period, the big firms in the soft industries declined 26% and the balance declined gently by 5%.

The net effect of this lopsided growth pattern is that, by 1984, 14.3% of all people working in manufacturing industries were in firms with fewer than 20 employees versus 9.7% in 1976 — at the expense of mid-size firms, which employed only 31% of people in manufacturing in 1984 compared to 37% in 1976.

A further significant element in the decline of manufacturing employment is that there were relatively few new entrants into the

**Table 2.3**[5] *Change in Manufacturing Employment, Canada, 1976-1984*

Net change in manufacturing employment, by firm size and industry, expressed as a percentage of 1976 employment base

| | Firm size by number of employees | | | | | | |
|---|---|---|---|---|---|---|---|
| **Industry** | **0-19** | **20-49** | **50-99** | **100-199** | **200-499** | **500+** | **Total** |
| Food | 32.1 | 9.1 | −1.9 | −13.6 | −16.1 | 2.5 | 0.3 |
| Tobacco | 33.3 | −47.9 | −100.0 | −100.0 | −75.9 | 64.4 | 25.7 |
| Rubber | 77.1 | 33.9 | 18.7 | −26.0 | −6.7 | −34.1 | −9.9 |
| Leather | 59.0 | −7.4 | −4.1 | −35.0 | −42.4 | −47.2 | −26.4 |
| Textiles | 40.8 | 11.8 | −20.6 | −25.4 | −32.4 | −20.1 | −16.2 |
| Knitting | 64.7 | −4.1 | −12.9 | −17.5 | −36.6 | −16.3 | −17.4 |
| Clothing | 60.5 | 5.0 | −16.5 | −34.4 | −32.9 | −31.6 | −18.3 |
| Wood | 30.7 | −8.3 | −15.8 | −15.3 | −27.6 | 12.8 | −2.5 |
| Furniture | 52.5 | −0.9 | −20.9 | −26.4 | −30.1 | −29.2 | −10.1 |
| Paper | 100.1 | 20.4 | −0.5 | −23.3 | −7.2 | −1.9 | −1.6 |
| Printing | 31.9 | 5.0 | 0.0 | −21.2 | −25.2 | 34.2 | 11.4 |
| Primary metal | 46.9 | 10.6 | −14.8 | −7.8 | −16.4 | 12.2 | 8.3 |
| Metal fabric. | 47.2 | 5.4 | −15.4 | −30.6 | −24.0 | −15.0 | −7.5 |
| Machinery | 70.7 | −2.7 | −0.7 | −24.6 | −19.2 | −19.9 | −8.7 |
| Transport. | 23.1 | −4.2 | −20.0 | −19.2 | −19.2 | 12.8 | 5.3 |
| Electric | 95.1 | 26.7 | −6.0 | −18.9 | −22.9 | −0.4 | 0.6 |
| Non-metals | 17.3 | −13.2 | −23.0 | −13.8 | −38.1 | −9.9 | −11.2 |
| Petroleum | 71.2 | 15.8 | −6.4 | −55.0 | 3.5 | −6.8 | −4.8 |
| Chemicals | 33.2 | 15.5 | −10.8 | −8.0 | 17.4 | 1.0 | 5.1 |
| Miscellaneous | 36.3 | −2.3 | −19.6 | −27.3 | −25.6 | 11.1 | −1.4 |
| **Total** | **42.1** | **4.1** | **−11.2** | **−23.3** | **−22.2** | **−1.0** | **−3.3** |

sector: births of new manufacturing firms added 27% to the employment base, well below the 35% average for all industries. What growth there was came from expansions of existing firms, which exceeded contractions by 15% to 13%.

The picture is quite different in the service industries. As Table 2.4 shows, there was solid growth between 1976-1984 in all sizes of establishment, with the exception of firms employing 200-499 people. The strongest growth was predictably in firms with fewer than 20 employees, but, unlike manufacturing, the largest firms also did well.

[5] *Ibid.*

**Table 2.4**[6] *Change in Employment in Services, Canada, 1976-1984*

Net change in employment in service industries, by firm size and industry, expressed as a percentage of 1976 employment base

| | Firm size by number of employees | | | | | | |
|---|---|---|---|---|---|---|---|
| **Industry** | **0-19** | **20-49** | **50-99** | **100-199** | **200-499** | **500+** | **Total** |
| Education | 104.3 | 25.0 | −3.9 | 24.3 | 18.0 | 11.6 | 15.0 |
| Museums | 168.4 | 11.8 | −3.9 | 38.8 | −3.7 | 0.0 | 34.6 |
| Health | 130.8 | 33.4 | 21.0 | 20.7 | 12.5 | 20.0 | 22.4 |
| Social | 80.3 | 57.2 | 19.9 | 15.8 | 19.2 | 32.5 | 37.2 |
| Religion | 55.8 | 14.6 | 11.9 | −36.8 | −31.1 | 33.6 | 4.2 |
| Amuse./recr. | 59.9 | 30.0 | 29.7 | 21.4 | −16.6 | 21.9 | 39.1 |
| Business | 209.3 | 102.9 | 31.2 | 43.4 | 9.5 | 138.9 | 86.8 |
| Prof. services | 62.5 | 24.8 | 18.4 | 13.2 | 14.5 | 57.7 | 40.3 |
| Personal serv. | 12.3 | −7.9 | −20.3 | −22.8 | −49.0 | 40.4 | 0.5 |
| Accommodation | 27.1 | 29.4 | 43.6 | 22.5 | −16.6 | 43.7 | 27.9 |
| Misc. services | 32.9 | 5.2 | −2.5 | 0.9 | −18.5 | 47.6 | 21.6 |
| **Total** | **40.8** | **25.9** | **22.8** | **16.3** | **3.4** | **25.9** | **26.7** |

The most spectacular sector is services to business management, which grew 87%, thanks in large measure to a tripling of the employment of firms employing fewer than 20 people. This sector was starting from a small base of 2.8% of total employment in the service industries, but its growth accounted for 9% of total growth in the service industries, pushing its share of employment to 4.1% by 1984.

The biggest numbers came from accommodation and food services, which employ more than a quarter of all people working in services and which had a respectable growth of 28%. Other industries which are performing well are professional services and amusement and recreation, which both grew at close to 40% over the period.

The worst performer was personal services, in which employment barely budged between 1976-1984 — and firms with more than 500 employees were by far the strongest category.

The other major employers in the service sector, education and health services, together account for one-third of all employment in the sector, and they contributed 15% of the new jobs. As the smallest firms account for only 3% of employment in these two industries, almost all the job gains were in the largest size sector.

[6] *Ibid.*

## Net Job Creation from Entrants and Exiters

Table 2.5 analyzes job creation through births, deaths, expansions and contractions. It's clear that the private-sector related service industries (excluding education and health) are a great deal more volatile than services as a whole or manufacturing.

**Table 2.5**[7] *Components of Employment Change, Canada, 1976-1984*

Net change in employment, through births, deaths, expansions and contractions, expressed as a percentage of 1976 employment base

| Component of change | Selected* services | All services | Manufacturing |
|---|---|---|---|
| Births | 57.4 | 40.4 | 27.3 |
| Deaths | −34.9 | −25.3 | −32.2 |
| Net change | 22.5 | 15.1 | −4.9 |
| Expansions | 19.7 | 20.9 | 14.6 |
| Contractions | −11.4 | −9.3 | −12.9 |
| Net change | 8.3 | 11.6 | 1.7 |
| **Total change** | **30.7** | **26.7** | **−3.3** |

* Selected services exclude firms related to education and health.

Activity in private-sector services is frenetic. With 57% growth in employment from the establishment of new businesses, entrepreneurs are flocking into their own businesses at a rate far greater than in any other part of the economy. This much higher birth rate would normally raise the exit rate to comparable levels, but it turns out the exit rate is only slightly above the rate in other parts of the economy.

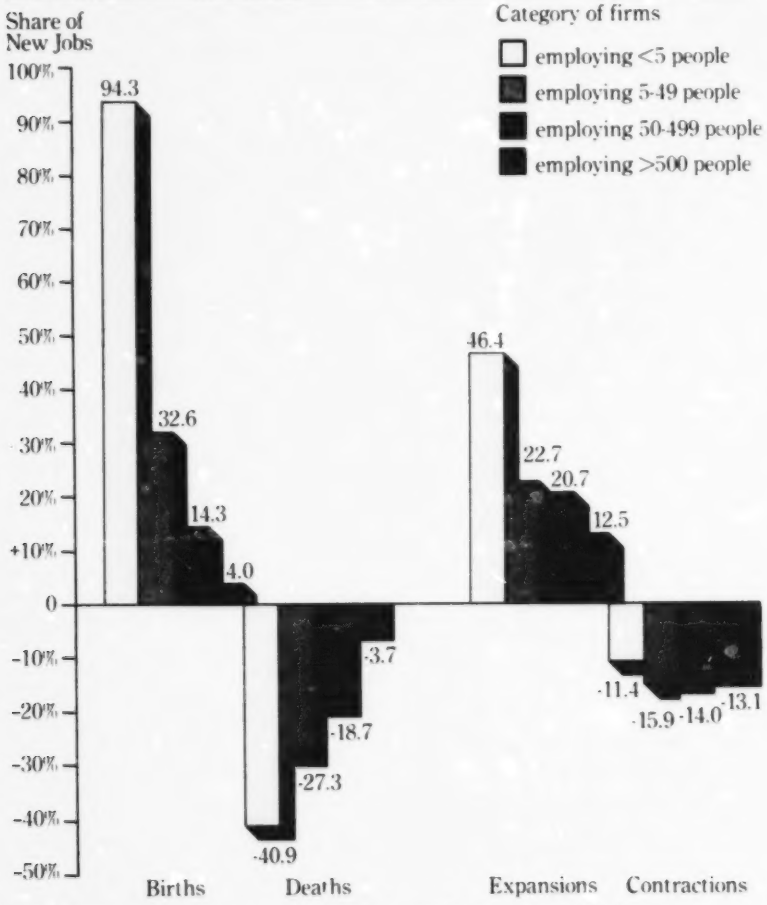
Business management services are easily the biggest contributors to this activity in new ventures. Employment growth in 1976-1984 was 102% from births, with a remarkable exit rate of only 40%, for a net gain of 62%. The next highest birth rates were in accommodation and food and professional services, both of which added about 60% to employment through births — although accommodation and food had a higher exit rate, as might be expected from such a risky business.

For personal services, starting a business is apparently a tough affair. Although entrants to the business contributed 35.5% in new jobs, exits weren't far behind at 34.6%. There wasn't much consolation

[7] *Ibid.*

**Chart 2.2**[8] *Components of Employment Change, Canada, 1978-1984*

Net change in employment, by firm size, expressed as a percentage of 1978 employment within each category




either once a firm was established, as employment growth from expansions was well below average for services and most other industries and less than exits in personal services.

[8]Source: *"Employment Creation by Province, Industry Classification, Firm Size and Life Status, 1978-84"*. Statistics Canada. Business Microdata Integration and Analysis and Small Business Statistics. 1987.

Chart 2.2 shows — over a different period, 1978-1984 — how births, deaths, expansions and contractions figured in job creation for all industries.

The most striking feature of Chart 2.2 is the 94% increase in employment in six years through births of new businesses employing fewer than five people. Deaths were also higher for these firms than for larger firms, as is normal with a high birth rate, but the net effect on employment through births and deaths of firms employing fewer than five people was still a significant 53% advance in employment.

It is equally significant that the growth in employment from expansions was also dominated by the smallest firms, which grew 46%, more than twice as much as firms employing 5-499 people and four times as much as big firms. Once the new, small firms have become established, they continue to provide the most impressive growth.

By contrast, contraction rates seem to vary relatively little by firm size. When times are tough, businesses react consistently.

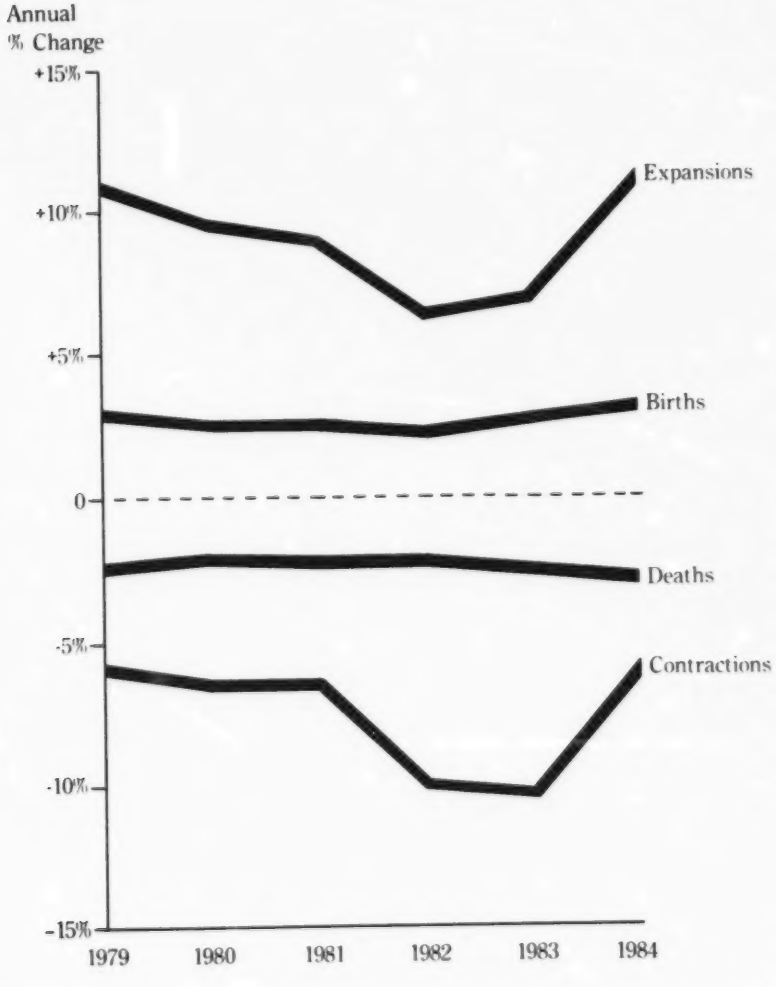
### Annual Trends: Impact of the Recession

The trends of these components of employment growth were dramatically affected by the 1981-82 recession, which took its toll in inhibiting the formation of new ventures and precipitating more fatalities. Chart 2.3 tracks the annual progression of these components before, during and after the recession.

In sharp contrast to Chart 2.2, this chart shows births as making a much smaller contribution to employment growth than expansions. This is because the births in the first chart are measured on their employment growth throughout the 1978-1984 period, while the second chart measures their growth only in the year of birth. The annual figures therefore shift much of the job growth in the six-year figures out of births and into expansions.

The major variations in this chart come from expansions and contractions of existing firms, which show how the recession's effects lasted into 1983. In the first year of the recession, expansions dropped one-quarter to 6.5% while contractions increased almost two-thirds to 10%. This brought the net change of employment from expansions and contractions to a loss of 3.5% in 1982 from a gain of 2.5% in 1981. This situation continued with only minor changes in 1983, then the recovery took hold, with expansions bouncing back to 11% and contractions falling to 6% for a net gain of 5%.

**Chart 2.3**[9] *Components of Employment Growth, Canada, 1978-1984, Annually*




[9] *Ibid.*

Further examination of these figures, in Table 2.6 below, shows that big firms are the major source of this volatility. Small firms held up well during the recession. They had a small dip in births in 1982, failures were almost unchanged, expansions were down by a fifth and contractions up by a fifth. But the largest firms (which of course account for a very small part of births and deaths) spread their reaction over two equally brutal years, cutting their employment expansions in half in 1982-1983 and more than doubling their contractions. The pattern for all firms with up to 499 employees is similar to that shown for firms with fewer than five employees.

Table 2.6 also provides further confirmation of the way the annual statistics understate job creation through births over the full period, 1978-1984. The expansion rate of the smallest firms, where most of the births occur, is much higher than the corresponding birth rate and the expansion rate for the largest firms.

**Table 2.6**[10] *Where the Jobs Came From, by Firm Size, 1978-1984*

Annual percentage growth in employment by component of growth and firm size

| Component | Employment growth in: 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| | **Firms employing fewer than 5 people** | | | | | |
| Births | 9.9 | 10.4 | 10.4 | 8.3 | 10.0 | 8.8 |
| Deaths | −10.3 | −9.8 | −9.6 | −10.1 | −9.7 | −10.0 |
| Expansions | 29.9 | 25.7 | 25.6 | 20.7 | 24.3 | 27.4 |
| Contractions | −11.6 | −12.2 | −12.3 | −14.8 | −12.9 | −10.6 |
| | **Firms employing more than 500 people** | | | | | |
| Births | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 | 1.4 |
| Deaths | −0.4 | −0.3 | −0.5 | −0.3 | −0.4 | −0.7 |
| Expansions | 6.6 | 5.6 | 4.6 | 2.8 | 2.1 | 5.2 |
| Contractions | −3.6 | −3.5 | −3.3 | −6.7 | −7.9 | −3.7 |

As a final indication of the impact of economic cycles on employment growth rates, Table 2.7 demonstrates regional variances and the impact of the recession on particular industries.

[10] *Ibid.*

**Table 2.7**[11] *Annual Employment Growth by Industry, Canada and Ontario, 1978-1984*

| Selected Industries | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1978-1984 |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % |
| **Manufacturing** | | | | | | | |
| Canada | 4.0 | 1.0 | 0.4 | −8.4 | −6.9 | 6.1 | −4.7 |
| Ontario | 3.1 | 1.0 | 1.0 | −6.4 | −6.2 | 9.1 | 0.6 |
| **Construction** | | | | | | | |
| Canada | 1.9 | −1.0 | 4.7 | −10.7 | −3.8 | 1.7 | −7.6 |
| Ontario | −3.4 | −3.8 | 3.2 | −6.4 | 2.5 | 7.8 | −0.8 |
| **Wholesale trade** | | | | | | | |
| Canada | 6.0 | 2.2 | 2.3 | −5.4 | −4.4 | 6.1 | 6.4 |
| Ontario | 7.0 | 2.0 | 2.6 | −1.5 | −2.0 | 6.4 | 15.1 |
| **Finance, Insurance and Real estate** | | | | | | | |
| Canada | 5.2 | 3.9 | −0.7 | 0.1 | −0.4 | 0.4 | 8.6 |
| Ontario | 5.9 | 4.0 | −0.8 | 1.1 | 1.1 | 2.2 | 14.1 |
| **Total, all industries except public administration** | | | | | | | |
| Canada | 5.4 | 3.4 | 2.7 | −3.6 | −3.1 | 5.3 | 10.0 |
| Ontario | 4.7 | 2.2 | 2.3 | −1.7 | −2.3 | 6.7 | 12.2 |
| **Public Administration** | | | | | | | |
| Canada | 5.1 | 1.7 | 3.3 | 2.1 | −1.2 | −0.9 | 10.3 |
| Ontario | 11.3 | −3.3 | 6.3 | 2.8 | −1.2 | −0.6 | 15.4 |

Ontario's record of job creation during 1978-1984 was somewhat better than that of Canada as a whole mainly because Ontario held onto more jobs through the recession. This was particularly evident in manufacturing, where the employment level in 1984 was marginally above that of 1978, while the national performance was a dismal 4.7% reduction in employment. This trend, of course, has been exaggerated still further in the three subsequent years.

Governments kept a tight rein on employment through most of this period, but that ended in 1985 with stronger employment growth, which reduced the percentage of total jobs created by small businesses.

[11] *Ibid.*

Perhaps the most remarkable industry was construction, where Alberta's boom and bust significantly distorted the national figures. In 1979, national employment grew 1.9%, thanks largely to Alberta's 9.9% growth, without which national growth would have been 0.2%. In the recovery from the recession, Ontario's construction industry grew 10.5% in 1983/1984, while Alberta's collapsed by 38%, bringing the national average down to a decline of 2.2%. In the full period 1978-1984, the Canadian industry declined by 3% without Alberta, 8% with Alberta.

In wholesale trade and finance, insurance and real estate, Ontario's performance has been consistently better than the rest of the nation.

### Regional Variances Within Ontario

The powerful economic recovery in Ontario since the 1981-82 recession has been rather uneven. The northern and eastern parts of the province have not had an easy time of it, while Metro Toronto and the central and southern parts of the province have enjoyed explosive growth.

In general, northern Ontario has a lower concentration of businesses relative to its population base than all the other regions. Chart 2.4 shows that the north also has the lowest number of business startups relative to its population. This is why the government has directed so many programs, especially financial (see Chapter 6), at helping northerners establish new businesses.

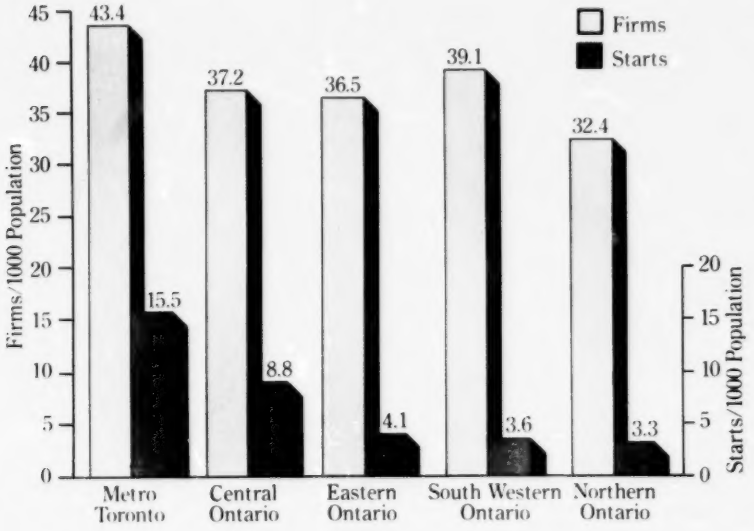
The rate at which new firms are being formed in southwestern Ontario is the same low rate as the north, despite the much healthier concentration of businesses in the southwest. Metro Toronto and central Ontario are both strong and growing stronger.

The economic strength of Metro Toronto can be clearly seen, with its concentration of firms in finance, insurance and real estate. Its low share of transportation, communications and utilities is deceptive. If the distribution were by employment rather than number of firms, Toronto would have a larger share because this industry has one of the highest concentrations of large firms and Toronto has most of the big ones.

The central region has been a major beneficiary of the boom in the auto industry, as can be seen from its high share of manufacturing firms. The southwest has a well-balanced economy, although it does have a large share of the farming activity, which has suffered — but not as much as in other parts of Canada, because it is so diversified.

**Chart 2.4**[12] *Where Ontario's Business Is — And Will Be*

Regional comparison of the number of businesses and the number of business starts per 1,000 population




[12]The number of firms per 1,000 population is taken from the Business Register produced by Statistics Canada in December, 1986. The business starts are registrations of new unincorporated businesses taken from data gathered by the Ministry of Consumer & Commercial Relations.

**Table 2.8**[13] *Where Industry Locates*

Percentage distribution of each industry among Ontario regions, 1986

| Industry | Region | | | | | | |
|---|---|---|---|---|---|---|---|
| | East | Central | Metro Toronto | South West | North | | Total |
| | | | | | East | West | |
| Primary | 15 | 38 | 2 | 37 | 4 | 3 | 100 |
| Mines | 6 | 15 | 54 | 8 | 12 | 5 | 100 |
| Manufacturing | 8 | 44 | 31 | 12 | 3 | 1 | 100 |
| Construction | 14 | 43 | 20 | 15 | 6 | 2 | 100 |
| Transport./Communications/Utilities | 13 | 37 | 19 | 16 | 10 | 5 | 100 |
| Trade | 13 | 39 | 25 | 15 | 6 | 2 | 100 |
| Finance/Insurance/Real estate | 10 | 31 | 43 | 11 | 4 | 2 | 100 |
| Services | 14 | 34 | 32 | 12 | 6 | 2 | 100 |
| Public Admin. | 23 | 16 | 31 | 14 | 11 | 6 | 100 |
| **Total** | **13** | **37** | **27** | **15** | **6** | **2** | **100** |

[13]Business Register, Statistics Canada. December, 1986. It should be noted that the Business Register may overstate the count of firms because of time lags in reporting. The count may also be understated by firms that report a single head-office location rather than all branches. Finally, establishments with no employees are excluded.

Table 2.8 shows how the industries that have enjoyed strong growth in the past five years are more heavily concentrated in south and central Ontario (including Metro Toronto). The north and east rely more on industries that have been in difficulty and less on strong industries. Compared to its share of all firms in the province, the north has double its average share of mining, which has been hurt by the continuing commodity crunch throughout the 1980s. By contrast, the north's share of manufacturing firms is only half its average share. The east is also weak in manufacturing, in which its share of firms is also about half its average share of all firms — and its strongest sector is farming, which has suffered the same difficulties as mining. Both regions have a disproportionate share of public administration in the province, running at about double their average share of all firms.

In this environment, small business becomes critical to the north, particularly. Table 2.9 shows that, as firms get bigger, they tend to drift into Toronto, which has more than half the firms employing more than 5,000 people, or almost double its share of small firms. The major exception to this is eastern Ontario where a significant government presence inflates the figures for large employers in the region.

Since services account for the lion's share of new jobs, it is useful to examine the distribution of service firms between the regions. Table 2.10 shows that the most dynamic sector, services to business, is concentrated most heavily in Toronto. The north has only half the share of firms in this sector that it has of all service firms. The north's service industry is heavily weighted toward accommodation and food, which has performed well in creating new jobs.

**Table 2.9**[14] *Where Firms Locate — Big, Small and Mid-Size*

Percentage distribution among regions within each size of firm

| Firm size (# of employees) | Region | | | | | | |
|---|---|---|---|---|---|---|---|
| | East | Central | Metro Toronto | South West | North East | North West | Total |
| | % | % | % | % | % | % | % |
| | | | | **Small** | | | |
| None | 13 | 36 | 28 | 16 | 5 | 2 | 100 |
| 1–4 | 14 | 37 | 26 | 15 | 6 | 2 | 100 |
| 5–9 | 13 | 38 | 25 | 15 | 6 | 3 | 100 |
| 10–19 | 12 | 38 | 27 | 15 | 5 | 3 | 100 |
| 20–49 | 12 | 37 | 30 | 13 | 5 | 3 | 100 |
| 50–99 | 11 | 36 | 34 | 12 | 4 | 2 | 100 |
| | | | | **Medium** | | | |
| 100–199 | 11 | 35 | 37 | 10 | 4 | 2 | 100 |
| 200–499 | 11 | 34 | 37 | 11 | 4 | 2 | 100 |
| | | | | **Large** | | | |
| 500–999 | 13 | 28 | 41 | 11 | 5 | 3 | 100 |
| 1,000–1,499 | 17 | 27 | 37 | 13 | 6 | — | 100 |
| 1,500–2,499 | 19 | 18 | 43 | 14 | 6 | — | 100 |
| 2,500–4,999 | 26 | 29 | 38 | 7 | — | — | 100 |
| 5,000+ | 33 | 15 | 52 | — | — | — | 100 |
| **Total** | **13** | **37** | **27** | **15** | **6** | **2** | **100** |

[14] *Ibid.*

**Table 2.10**[15] *Regional Strengths in Services*

Percentage weightings of types of service industry within each region

| Type of Service | Region | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | North | | |
| | East | Central | Metro Toronto | South West | East | West | Total |
| Education | 2 | 2 | 1 | 2 | 3 | 3 | 2 |
| Health | 14 | 14 | 13 | 16 | 14 | 11 | 14 |
| Religious | 5 | 5 | 2 | 8 | 5 | 6 | 4 |
| Amusement and recreation | 5 | 5 | 6 | 6 | 5 | 6 | 5 |
| Services to business | 21 | 22 | 30 | 18 | 13 | 12 | 23 |
| Personal services | 24 | 22 | 27 | 17 | 13 | 11 | 23 |
| Accommodation/food | 18 | 17 | 12 | 19 | 33 | 37 | 17 |
| Miscellaneous | 11 | 12 | 9 | 14 | 13 | 15 | 11 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

[15] *Ibid.*

# 3 The Genesis of Growth

The previous chapters have established clearly that small firms are providing the majority of new jobs for Ontario and Canada. But why? This chapter attempts to develop some patterns that will provide some explanations for the phenomenon.

The first observation is that small manufacturers are generally healthier in industries where the big firms are strongest. When big firms can compete internationally, they appear to create an environment in which smaller firms — both suppliers and competitors — can prosper. In Table 3.1, the manufacturing industries have been split into two — one part made up of industries that are dominated by big businesses (more than half of all jobs in the industry are in firms employing more than 500 people) and the other in small-business dominated industries. The resulting figures for job creation show clearly that all sizes of firms perform better in the big-business dominated sector. In the sectors dominated by small businesses, even firms employing fewer than 20 people, which were a strong force in creating jobs, didn't do as well as their counterparts in the big-business dominated sector.

**Table 3.1**[1] *The Influence of Big Firms, Canada, 1976-1984*

Percentage increase in net employment, by firm size, based on 1976 employment levels

| Firm size (employees) | Manufacturing<br>Employment growth in the sector dominated by: | |
|---|---|---|
| | **Big business*** | **Small business*** |
| 0-19 | 48.9 | 40.2 |
| 20-49 | 14.5 | 1.4 |
| 50-99 | −7.7 | −12.3 |
| 100-199 | −18.4 | −24.9 |
| 200-499 | −9.6 | −26.9 |
| 500+ | 2.6 | −5.5 |
| **Total** | **2.2** | **−6.5** |

* The sectors dominated by big business accounted for 38% of total employment in manufacturing in 1976, 40% in 1984. The sectors are tobacco, rubber, paper, primary metal, transportation, communications & utilities, electrical, petroleum and chemical. The small-business dominated sectors are food, leather, textiles, knitting, clothing, wood, furniture, printing, metal fabricating, machinery, non-metal and miscellaneous.

[1]Source: *"A Study of Job Creation in Canada, 1976-1984"*. Statistical Analysis, Department of Regional Industrial Expansion. 1986.

The contrast is skewed by the automobile industry which employs almost a quarter of the people and which accounted for the entire growth in jobs in firms employing more than 500 people in the big-business dominated sector. Without the big auto companies, firms employing more than 500 in the big-business dominated sector would have had a miniscule decline in jobs.

Perhaps more surprisingly, this industry is the sole exception to the rule that small manufacturers prosper more when the big firms are successful. Small transportation-equipment manufacturers employing fewer than 100 people performed significantly worse than their counterparts in the small-business dominated sector.

For services, the pattern is slightly different. The big-business dominated sector is made up of the education and health industries, which are closely related to the public sector and which have demonstrated steady, but unspectacular growth. Average growth in this sector was 19% between 1976-84 compared to 31% for the small-business dominated industries.

However, the small-business dominated sector outperformed the big-business dominated sector only in the category of firms employing

**Table 3.2**[2] *The Influence of Big Firms, Canada, 1976-1984*

Percentage increase in net employment, by firm size, based on 1976 employment levels

| | Services | |
|---|---|---|
| **Firm size (employees)** | **Employment increase in the sector dominated by:** | |
| | **Big business*** | **Small business*** |
| 0-19 | 120.0 | 38.3 |
| 20-49 | 31.0 | 25.5 |
| 50-99 | 14.3 | 24.3 |
| 100-199 | 22.1 | 14.5 |
| 200-499 | 15.2 | −6.4 |
| 500+ | 16.3 | 55.7 |
| **Total** | **19.3** | **30.7** |

* Big-business dominated sectors accounted for 36% of total employment in services in 1976, 34% in 1984. The big-business dominated sectors are education and health. The small-business dominated sectors are museums, social services, religion, amusement and recreation, services to business, professional services, personal services, accommodation and food and miscellaneous.

[2] *Ibid.*

more than 500 people. In small- and medium-sized firms, education and health sectors generally performed better than the rest, showing a similar pattern to that of manufacturing. (This is not true for firms employing 50-99, due largely to the accommodation and food industry. Since many small firms in this industry need to grow to 50-99 employees to become viable, job creation is skewed to this category among small firms, pushing up the job creation figures for the entire small-business dominated sector.)

In the 500+ category, three industries had outstanding growth — business services was up 139%, professional services 58% and accommodation and food 44%. The performance of firms employing fewer than 20 people in the big-business dominated sector was on a very small base, so it is not statistically significant.

The second pattern to the dominant role of small business in job creation lies in an examination of individual firms over a period, to establish which ones are the giant killers in job creation.

A study of the years 1978-1982[3] showed that employment in firms employing fewer than five people grew by 54.3%, and accounted for 51.7% of the new jobs created between 1978-1982. (These numbers do not coincide with those discussed in previous chapters because the period is different, but they are of the same order of magnitude.)

Despite this growth, firms employing fewer than five people accounted for only a marginally higher share of total employment in 1982 than they did in 1978 (8.5% versus 7.8%). The reason, as indicated previously, is that many of the growing small firms grew out of the category of firms employing fewer than five people, so they were put in a higher category in 1982 than they were in in 1978. If the firms that employed fewer than five people in 1978 are measured as a whole, without discounting the firms that grow into higher categories, their share of the total workforce increased to 11.2% in 1982 from 7.8% in 1978.

The same applies to firms that reduce their employment. Firms employing more than 500 people cannot grow into a higher category, but more than 10% of the firms in this study declined into smaller categories. These firms dropped more than a third of the jobs created by firms that stayed in the 500+ category. However, the firms that employed 100-499 people in 1978 and grew into the 500+ category created almost double the jobs lost by the declining big firms.

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[3]Source: *"An Analysis of Job Creation based on the T4 Employment Estimates Data Base 1978-1982"*. Statistical Analysis, Department of Regional Industrial Expansion. 1986.

By tracing these firms through their new categories, Tables 3.3 and 3.4 give a much clearer picture of the real source of job creation.

In all, 91% of the new jobs came from the 36,080 firms (5% of the total) that moved into a higher category over the four-year period. Among the 712,013 firms in 1982, there were four major sources of new jobs: those listed in Table 3.4. Most spectacularly, the 1,435 most dynamic small and medium-sized firms (0.2% of the total) created more than a quarter of all new jobs.

There is another side to this coin, of course. The smallest firms lead a considerably more precarious existence. Of the 449,393 firms in 1978 that employed fewer than five people, 41% had disappeared by 1982.[4] For firms employing 20-49 people, the death rate was a still-high 20%.

The most severe instability was in firms employing 20-99 people. Although their death rate was lower at 15%, less than half of the firms that existed in 1978 remained in the same category, while 24% shrank to a smaller category and 11% expanded into bigger categories. The net employment picture was relatively stable, however, with the growing firms contributing 26% of total new jobs and the shrinking firms dragging 24% away. The overall net gain in jobs over the period was 5%.

The largest firms had their share of job shrinkage from downsizing. A mere 168 firms that employed more than 500 people in 1978, but were in a smaller category in 1982, dragged 10% away from job creation. Downsizing was spread evenly over all size categories and took away two-thirds of the gains made by firms growing into larger categories.

Growth is clearly a high-risk activity. Among firms that started during 1978-82 and grew into a larger employment category by 1982, as many jobs were lost as were created — a 30% drag against a 31% gain. Discretion is the better part of valour, apparently, because the firms that started during the period and cut back their employment to drop into a smaller category made a bigger net contribution to job creation. The births of these cautious firms added 29% of new jobs, while the firms that went under despite the retrenchment dragged job creation down by 25%.

Safest of all during a period which covers the worst recession in Canada since the 1930s were the firms that started in 1978-1984 but didn't expand dramatically — an 84% contribution to job creation by the 41% of new firms that survived to 1984 and a 63% drag on job creation by the 25% of firms that didn't.

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[4] *Ibid.*

**Table 3.3**[5] *Contributions to Job Creation, Canada, 1978-1982*

Share of total job creation by firm size in 1978 and 1982

| Firm size in 1978 | Firm size in 1982 | | | |
|---|---|---|---|---|
| | Smaller size | Same size | Larger size | Total |
| | % | % | % | % |
| 0-4 | — | 1.6 | 25.2 | 26.8 |
| 5-19 | −14.9 | 1.7 | 21.1 | 7.9 |
| 20-49 | −13.9 | 1.6 | 13.9 | 1.6 |
| 50-99 | −10.1 | 1.4 | 12.1 | 3.4 |
| 100-499 | −12.6 | 9.3 | 18.9 | 15.6 |
| 500+ | −10.1 | 29.3 | — | 19.2 |
| **Total, Continuous Firms** | **−61.6** | **44.9** | **91.2** | **74.5** |
| Births | 28.8 | 83.8 | 30.8 | 143.4 |
| Deaths | −25.3 | −62.6 | −30.0 | −117.9 |
| **Total** | **−58.1** | **66.1** | **92.0** | **100.0** |

**Table 3.4**[6] *The Really Big Hitters in Job Creation*

| Category (1978 and 1982) | Number of firms | Percentage of | |
|---|---|---|---|
| | | Total firms | New jobs |
| 1) Firms that stayed in 500+ | 1,533 | 0.20% | 19% |
| 2) Firms employing fewer than 5 in 1978 that outgrew their category | 24,611 | 3.50% | 25% |
| (including those that jumped to more than 20 employees) | 1,116 | 0.15% | 8% |
| 3) Firms employing 5-19 in 1978 that outgrew their category | 7,222 | 1.00% | 21% |
| 4) Firms employing 100-499 in 1978 that grew into the 500+ category | 319 | 0.04% | 19% |

[5] *Ibid.*
[6] *Ibid.*

The assumption that mid-sized firms have been the weak link in Canada is also cast in a different light by the performance of the 319 firms that employed 100-499 people in 1978 and grew into the 500+ category by 1982. They created 19% of the new jobs. Their replacements from smaller categories were not as strong — 1,235 firms went up a category from 50-99 but that accounted for only 12% of the new jobs. The net result was the now-familiar shrinking of the mid-sized categories.

In a similar study done for the period 1976-1984,[7] manufacturing emerges as the industry most likely to produce high-growth firms from the smallest firms. Of the manufacturing firms that employed fewer than 20 people in 1978, 7% grew into a higher category. Another 42% went out of business and only 51% remained in business in the same category. For all industries, 42% went out of business and only 2.5% grew into higher categories, split fairly evenly between manufacturing, trade and services.

Of the 2.5% of the firms that were in business in 1978 and grew into higher categories by 1984, 83% employed 20-49, the next biggest category. 12% grew to employ 50-99 people and the rest employed more than 100 — including 22 that employed more than 500.

Table 3.5 shows that 4.4% of the 2.5% of firms grew from having fewer than 20 employees in 1976 to having more than 100 in 1984. Although these are few in number (0.11% of the total or 435 firms), they are a major source of new jobs. The industry which has the most aggressive growth firms is finance, insurance and real estate, where 11% of the firms that employed fewer than 20 in 1978 had grown to 100+ by 1984 — but at a price of having the highest failure rate, too, at 51%.

Ontario and Alberta were the two provinces most likely to produce these high-growth small firms, with 2.8% and 2.9% respectively growing to a bigger category in 1984. They also had the highest failure rates at 43.9% and 46.7% respectively, emphasizing the inevitability of failures in higher risk situations. After these two, the next most active province was Quebec, confirming that province's shift into an entrepreneurial economy.

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[7] *"A Study of Job Creation in Canada, 1976-1984"*. Statistical Analysis, Department of Regional Industrial Expansion. 1986.

**Table 3.5**[a] *Where the Growth Firms Are, Canada, 1976-1984*

1984 distribution, by size, of firms employing fewer than 20 people in 1976

| | Firm size in 1984 | | | Percentage breakdown of 20+ | | | |
|---|---|---|---|---|---|---|---|
| **Industry** | **0-19** | **20+** | **Inactive** | **20-49** | **50-99** | **100-499** | **500+** |
| Agriculture | 72.1 | 2.0 | 25.3 | 79.6 | 17.0 | 3.4 | — |
| Forestry | 50.8 | 2.9 | 46.3 | 82.0 | 9.8 | 8.2 | — |
| Fishing | 71.3 | 3.7 | 25.0 | 63.6 | 27.3 | 9.1 | — |
| Mining | 45.7 | 5.1 | 49.3 | 76.1 | 14.9 | 8.9 | — |
| Manufacturing | 50.7 | 6.7 | 42.6 | 81.5 | 13.3 | 5.0 | 0.2 |
| Construction | 56.7 | 1.5 | 41.9 | 86.8 | 10.7 | 2.2 | 0.3 |
| Transportation | 49.9 | 4.1 | 46.0 | 81.0 | 13.6 | 4.8 | 0.5 |
| Trade | 57.0 | 1.6 | 41.4 | 88.4 | 8.9 | 2.6 | 0.1 |
| Finance | 46.5 | 2.9 | 50.6 | 70.5 | 18.6 | 10.9 | — |
| Services | 54.2 | 2.9 | 42.9 | 83.1 | 12.0 | 4.5 | 0.4 |
| **Total** | **55.2** | **2.5** | **42.3** | **83.4** | **12.0** | **4.4** | **0.2** |

[a] *Ibid.*

**Table 3.6**[a] *The Types of Enterprise That Count for Jobs, 1976-1984*

Share of job creation in Canada, by firm size and type

| Firm type | Firm size | | | | | |
|---|---|---|---|---|---|---|
| | 0-19 | 20-49 | 50-99 | 100-499 | 500+ | Total |
| | % | % | % | % | % | % |
| Independent | 76.7 | 5.0 | −4.6 | −14.8 | 3.6 | 65.9 |
| Subsidiary | 1.6 | −1.3 | −2.2 | −12.3 | −4.4 | −18.6 |
| Headquarters (subsidiary) | 5.8 | 1.7 | −0.2 | −3.4 | −3.1 | 0.8 |
| Headquarters (non-subsidiary) | 0.3 | 0.6 | −0.6 | −7.2 | −9.0 | −15.9 |
| Branch | 2.9 | 1.2 | 1.6 | 2.9 | 59.1 | 67.7 |
| **Total** | **87.3** | **7.2** | **−5.9** | **−34.7** | **46.2** | **100.0** |

[a] *Ibid.*

A final indication of the firms most likely to grow is the type of enterprise — independent, a subsidiary, headquarters (subsidiary or non-subsidiary) and branches. The polarization referred to earlier is laid bare in this analysis. Table 3.6 shows that 77% of new jobs in 1976-1984 came from independent businesses employing fewer than 20 people (which accounted for 56% of the employment base in 1976) and 59% came from branches employing more than 500 (which accounted for 20% of the employment base in 1976). All other size and enterprise-type categories are minor compared to these two.

The growth of the branches was dependent mainly on opening new branches, which accounted for 66% employment growth versus only 11% from expansions of existing branches. Branches were also closed more quickly, however, resulting in a 39% decline in jobs.

Witjh the independent firms, growth came mainly from births as well (33%), but deaths were high at 30%. There was better net growth in expansions (19%) net of contractions (12%).

# 4 An Anatomy of Roaring Successes

In the army of entrepreneurs who are changing the face of our economy, there is an elite corps whose businesses are growing at exponential rates. These select few embody much of the dynamism that distinguishes the entrepreneurial sector. Their success is seldom due to luck or being in the right place at the right time. They have an approach to business and an attitude toward life that sets them apart, even from other entrepreneurs. They have become a source of acute interest as much for other entrepreneurs hungry for success as for governments anxious to preside over booming economies.

The Ontario government commissioned a study to find out more about these people.[1] The results of the study, titled *Ontario's Successful Businesses*, are clear-cut: these businesses are different.

> "We've succeeded because of hard work. We identified specific market needs and went after them. We stayed abreast of the best technology money can buy and hired the most qualified people. We don't just talk about honesty and integrity, we practise it in everything we do. Our people have a big say in the running of the company — it's a family atmosphere." — Manufacturer.

Quotations from the interviews with the entrepreneurs illustrate the study's conclusions, but they cannot be attributed to the individuals, who spoke on condition their remarks be treated as confidential.

The study identified 84 businesses that met four criteria:

1. They had their head office in Ontario.
2. They were not subsidiaries of another firm.
3. They were founded in 1974 or later. Fifteen of the companies were not started from scratch but were bought by the current owner within the same time frame. They were included because the company was totally transformed by the new owner, representing virtually a new venture.
4. In 1986, the firm's annual sales were more than $7.5 million or it employed more than 75 people.

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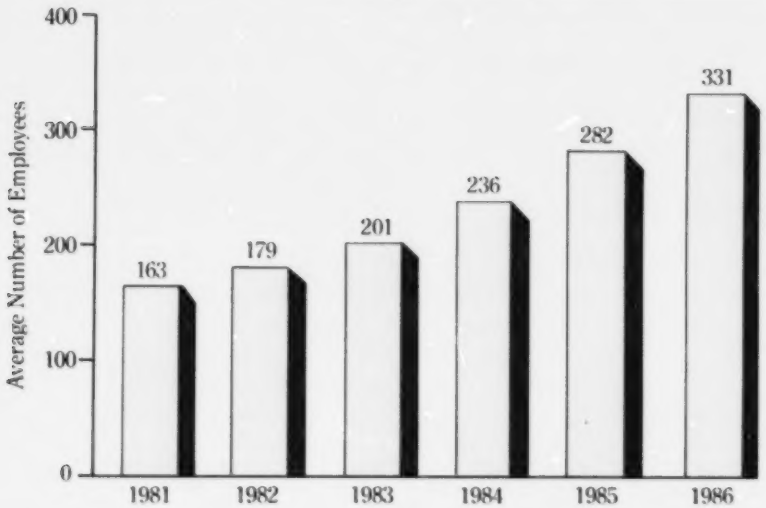
[1] *"Ontario's Successful Businesses"*, conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.

The record of these companies is impressive. Chart 4.1 shows how employment has grown in these firms over the past few years.

**Chart 4.1**[2] *Employment Growth in Successful Companies*




Three of these companies, all in manufacturing, grew to employ more than 1,000 people and another eight grew to employ 500-1,000. Excluding these giants, the average successful company employed 173 people full time, a still-impressive performance. The successful firms also employ a lot of part-timers, averaging 146 per firm.

These firms are also major employers of the groups that are generally underrepresented in the employment statistics. People under 30 accounted for almost half of the total employment versus only slightly more than one-quarter for the entire labour force.[3] Women accounted for 45% of their employees versus 34% for the whole labour force.

Table 4.1 demonstrates the impressive growth in annual sales of these firms — 19% a year, through the toughest recession in more than 50 years.

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[2] *Ibid.*

[3] Source: *"Demographic and Earnings Profile of Business Employment. 1984"*. Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.

**Table 4.1**[4] *The Growth Record of the Successful Companies*

| | Average sales growth | | | |
|---|---|---|---|---|
| | **All sectors** | **Manufacturing** | **Retail** | **Service** |
| Sales 1981 ($ million) | $16 | $24 | $16 | $10 |
| 1985 ($ million) | 33 | 43 | 43 | 17 |
| Growth 1985/1981 (%) | 103 | 81 | 173 | 67 |
| Annual compound growth (%) | 19 | 16 | 29 | 14 |

To put this record in perspective, the average growth numbers conceal the difficulties of some of the sampled companies as a result of the recession. Fully 15% of the firms had lower sales in 1985 than in 1981. Yet they had still shown remarkable growth to 1985 from the time they were founded. Even for the three-quarters of the firms that had higher sales in 1985 than in 1981, the economy demanded a lean operation: only 58% had expanded their facilities, while 73% had expanded their staff.

"In the last five years, the firm has contracted in size. We have fewer employees for the same number of jobs and functions — people have taken responsibility for two jobs."
— Manufacturer.

The outlook for the next five years is less restricted, with 88% of the entrepreneurs expecting sales to grow and 70% expecting staff and facilities to grow.

So what are these firms like? 94% of them are entirely domestically-owned. There is an unusual concentration of manufacturers, more than double the share of the general population of entrepreneurs. They were quicker to incorporate than most and 12 of the 84 have listed their shares on the stock exchange. Franchises are a popular route to growth — one-fifth of the total and half of the retail operations in the sample are franchisors or franchisees.

The entrepreneurs themselves are a breed apart. Compared to the general population of entrepreneurs, they are older, better educated and, so far, they tend to be men. A study of a comprehensive cross section of startup firms in Ontario during 1982-1984[5] examined 861 new

[4]Source: Based on information contained in *"Ontario's Successful Businesses,"* conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.
[5]Source: *"Newly-Formed Small Businesses in Ontario, 1982-1984"*. Conducted for the Small Business Branch, Ministry of Industry, Trade & Technology by The Creative Research Group. 1985.

businesses registered during the period. While almost one-quarter of this larger group were started by women, all but one of the successful companies were led by men.

Almost none of the entrepreneurs running the successful companies were younger than 30 while a sixth of the large group were. The concentration of people aged more than 50 was correspondingly higher for the successful companies. Finally, two-thirds of the successful entrepreneurs have university degrees, double the rate for the large group.

Oldest sons appear to have an edge over their less fortunate siblings (if they want to become an entrepreneur). Almost two-thirds of the entrepreneurs running successful companies were the eldest child, the eldest male child or the only child. They tend to come from larger families, too — more than a third had three or more siblings.

Consistent with other research, their fathers come mostly from executive and entrepreneurial backgrounds.

A little more than half of these entrepreneurs are founders who have owned their firm from the beginning — some of the rest bought operational companies and several had helped start the firm, then taken it over from the founder.

A major international study[6] has delineated two principal entrepreneurial types — craftspeople and businesspeople or opportunists. Their characteristics are repeated across cultural and national boundaries. The former seek perfection in their product or service, have a strong need to prove themselves, want to make a lot of money and aim to build something for their children. The latter are motivated by the imperatives of the business rather than personal feelings and are mainly interested in the business prospering. For them, personal wealth is a side-benefit (enjoyed and appreciated but not the be all and the end all). The prototypes are unmistakable in the two groups of people studied in Ontario, as Table 4.2 shows.

For the cross section, the major influences are previous experience in the same type of business and a background of skilled labour — an unmistakable indication of the large component of craftspeople in the average entrepreneurial firm. In the successful companies, that component is absent.

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[6]A major survey of almost 4,000 entrepreneurs in 11 countries, including Canada, was conducted by SKIM Industrial Market Research, based in the Netherlands. The sample in each country was 180 firms older than 5 years that have grown at least as fast as GNP plus another 180 firms less than five years old.

**Table 4.2**[7] *Previous Experience of Entrepreneurs*

Comparison of the previous experience of a cross section of 861 entrepreneurs and 84 successful companies

| | Cross section of 861 entrepreneurs | 84 successful entrepreneurs |
|---|---|---|
| | % | % |
| Worked in this type of business before | 78 | 64 |
| Other relevant experience | 7 | 35 |
| No previous experience | 15 | 1 |
| Previous experience in running a business | 60 | 81 |
| **Previous job:** | | |
| Executive/owner/manager | 42 | 81 |
| Professional | 10 | 7 |
| Sales | 9 | 5 |
| Clerical/white collar | 10 | 1 |
| Skilled labour | 21 | 1 |
| Unskilled labour | 3 | 0 |
| Student | 2 | 4 |
| Other | 2 | 1 |

> "I didn't know anything about [this business]...What I bring to [this business] is common sense. I sit here and I look at what's happening on the floor and I can see what's a problem. So then I can see what to do to solve it too — that's what I do for this business." — Service company.

More than a third of these people have only indirect experience in their type of business and more than 80% of them come from an executive background with experience in running a business. The cross section, by contrast, has far fewer executive types and somewhat less experience in running a business. Fully 15% have no previous experience, relevant or otherwise, in their type of business.

Half of the successful entrepreneurs who came from a background of executive, owner or manager had a title of President, General Manager or Vice President. These people, moreover, are more likely to start their own businesses in an industry in which they have no direct

[7]Source: *"Ontario's Successful Businesses,"* conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.

experience. More than a third of the people who had no previous experience in their business had been an executive, an owner or a manager while only 21% of those who had previous experience in their type of business came from this background.

People with financial backgrounds, particularly accountants, appear to be most confident of their ability to thrive in strange environments. One-third of the people who had no previous experience in their business have a C.A. or a financial background versus 16% in the group that did have direct experience.

Half of the successful entrepreneurs and one-third of the cross section have started other businesses previously, averaging about three businesses each. The successful entrepreneurs have a better track record, however, with almost two-thirds of their businesses still active, compared to 41% for the cross section. The founders among the successful entrepreneurs were less likely than the rest to have started other businesses — only 42% have done so and they started an average of two businesses each, less than half the average for non-founders.

These, then, are the people. Why have they been so successful? They are a great deal more ambitious than the average entrepreneur, as three-quarters of them wanted, when they first started out, to grow into a really big firm. Only half the cross section feels that way. Like all entrepreneurs, they want to be their own boss.

> "I couldn't work for anybody else. I can't take direction." — Service company.

They also want to make money and they figure they have seen a market opportunity for which they have the relevant experience. Unlike most entrepreneurs, they are more likely to have always wanted to run their own business. They also are more likely to do so on their own terms, rather than being forced into it out of economic necessity.

There is a remarkable degree of agreement in their own assessments of why they succeed. Table 4.3 shows how they rate the strengths of their businesses and the reasons for their success. There's not always consistency between the two.

**Product quality** covers product, service, product quality, better products/services; attitude to client, customer service; catering to customers' needs; technical strength, keeping up with technology; reputation, high standards, well-known brands; full range of products/services.

**Management** covers good management, good leadership; understanding markets, the industry, recognizing opportunities; hands-

**Table 4.3**[8] *Entrepreneurs' Secrets of Success*

Number of volunteered mentions of business strengths and reasons for success, expressed as a percentage of the respondents

| Characteristic | Strengths | Reasons for success |
|---|---|---|
| | % | % |
| Product quality | 80 | 115 |
| Management | 91 | 86 |
| Good people | 83 | 64 |
| Character | 24 | 53 |
| Efficiency | 16 | 21 |
| Location | 23 | 6 |
| Financial strength | 7 | 2 |
| Luck | 0 | 5 |

on management, managerial control; marketing practices, good marketing; planning, good strategy; right time, timing; entrepreneurship.

**Good people** covers people, personnel, fine team, good staff, competent employees; loyal employees, motivated, dedicated; staff expertise, well-trained staff; input from staff; profit sharing; hiring qualified people.

**Character** covers desire for expansion, willingness to take risks; integrity, honesty, sound principles; hard work; stability, long-term commitment.

**Efficiency** covers competitive prices; low-cost operation; challenge of competitors.

**Location** covers location; local involvement; we're Canadian, belief in Canadian products.

Quality of product or service is clearly the item most successful entrepreneurs like to rely on. The 84 entrepreneurs in this study mentioned product quality, in various guises, as the reason for their success 98 times.

> "The key is attention to detail, concern with customer needs, lack of greed. It's giving the customer the right product at the right price. Keep in mind 'tomorrow' — that you're not just in business for today." — Retail and service company.

[8] *Ibid.*

The other major secrets of success are management and leadership, good employees and the sterling character traits of the entrepreneurs.

> "The people involved in our company are our strengths. A goal-oriented organization — our employees are taught to think in a positive manner and know where the company is going." — Service company.
>
> "I think we're successful because of a mixture of hard work, which we like, brains and fear. People, of course. Of course! Staying out of trouble, knowing the downside. Prudent opportunism and quick movement." — Manufacturer.
>
> "I'm a great believer in a company's success — a combination of determination, enthusiasm and expecting the best from all employees. My staff works with me because we have fun — we have parties together. We don't stop spending money on the staff and if we take them to lunch, we pay. If someone has a problem, we take care of it. Full-time employees get a share in both the growth and the profit. Part-time employees are rewarded with cash bonuses, no shares." — Retail and service company.
>
> "There is nothing that is not correctable in our company. We are very quick to respond to problems and our small management team is loose, flexible in thinking and responding." — Retail company.

The top four secrets of success were also rated the top four strengths of the successful businesses — but in quite different rankings. They ranked their own management as the most important strength, with more mentions than they gave it for their secrets of success. While they ranked their employees as a great strength of their businesses, second only to management, they feel that their employees' contribution to the success of their businesses is somewhat less significant. By contrast, they did not mention their own character traits too often as a source of strength of the firm, yet they cited those traits twice as often as a significant contributor to their firms' success. Product quality and character received significantly less attention as a strength of the business than they did as reasons for their success.

Not surprisingly, financial strength is not high on the list of strengths. By definition, an entrepreneur is someone who creates wealth with inadequate resources, so if financial strength was a major factor in their businesses, they wouldn't have to be entrepreneurial.

Luck, equally unsurprisingly, doesn't feature as a strength, but it also hasn't impressed the successful entrepreneurs as being responsible in any serious way for their success.

Looking at these same responses by sector, the patterns are similar between manufacturing, retailing and service companies. However, the people who bought operational companies had some marked differences in their view of the reasons for the success of their firms. Product quality was rated a great deal higher, receiving proportionately half as many mentions again as the whole group. These people rated their employees a lot lower (59%) as well as their own characters (40%).

The perceived weaknesses of the successful firms are the reverse reflection of the perceived strengths. Financial constraints are mentioned most often. However, when all the mentions are added up under various guises, the biggest concern is management, with mentions numbering 67% of the respondents, followed by employees with 53%.

> "We're a little set in our ways...We have a tendency to deal with many opportunities at the same time. We lack some classical departments, such as marketing and personnel. We're still young and have not defined strategies." — Manufacturer.

> "We're perhaps slow to react to market conditions because of loyalties. There are now a hundred competitors where 10 years ago we were alone, so we need to work on market share." — Service company.

> "We have outgrown a lot of our people — they could get the job done before and now can't. There comes a time when entrepreneurial style has to be twinned with a more organizational management." — Manufacturer.

> "People don't want to work. Life is no free ride. I believe the children today are not being taught. This new generation is frustrating; no-one trains them for the real world. It's a real problem." — Manufacturer.

Competitors and the market generally are not a major concern, as might be expected from successful companies, although these factors were mentioned by a third of the sample. Government really doesn't bother them much as a group, although it bothers some of them a lot.

> "A real problem is government red tape over so many things: They are slow and inefficient in tax and health departments and especially the W.C.B. We don't get responsible, hard workers out of the schools either. In spite of this, we're strong and have grown. We have a lot of trouble with some of the union rulings because they insist that someone can keep climbing up the ladder whether they are qualified or not." — Manufacturer.

There are significant variances in their perception of weaknesses between the sectors, as Table 4.4 shows. The manufacturers worry most, mentioning 45% more problem areas than retailers and service companies. The manufacturers are particularly concerned with financial constraints and their own management (77%). The owners of bought companies, most of whom are manufacturers, rated their own management as much less of a problem than did the rest of the entrepreneurs and they rated their employees as a much bigger problem than the others. One in 10 of the entrepreneurs said they had no weaknesses at all — led by the those in the service industries, one in five of whom feel they have no weaknesses.

**Management** covers too rapid growth, too big too fast; weak management; marketing, no marketing department; not enough management; lack of internal communication; normal growing pains; small, can't produce fast enough; set in our ways; external management systems; need to solidify our long-term planning systems.

**Staff** covers lack of trained staff; lack of motivated staff; staff productivity; lack of available qualified staff; staffing problem, turnover; no personnel department; union rulings, organized labour; schools don't produce responsible workers; skilled workers.

**Competition/market** covers market conditions; severe competition, imports; changing times; only in Canada, no export market.

**Government** covers government red tape; lack of government support; taxes.

The concern with financial constraints becomes crystal clear in the light of the size of the investment made in their businesses by the successful entrepreneurs. When they started their firms, they invested, on average, 72 times the amount invested at startup by the cross section of entrepreneurs. That's $2.4 million versus $33,000 by the cross section. These numbers are heavily weighted by 18 really big startups, a fifth of the sample, which had average startup investments of more than $8 million each. Much of the weight of these investments comes from

**Table 4.4**[a] *The Weaknesses of Successful Entrepreneurs*

Number of volunteered mentions, by industrial sector, of weaknesses in the successful entrepreneurs' businesses, expressed as a percentage of the respondents

| Sector | No weakness | Manage-ment | Staff | Competition or market | Financial constraints | Government |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Manufacturing | 3 | 77 | 55 | 55 | 31 | 8 |
| Retail | 10 | 55 | 50 | 25 | 20 | 5 |
| Service | 19 | 52 | 56 | 18 | 16 | 15 |
| Bought firms | — | 48 | 67 | 54 | 40 | 7 |
| **All sectors** | **11** | **67** | **53** | **34** | **21** | **10** |

[a] *Ibid.*

the companies that were bought as operational concerns. The five biggest of them had an average investment of more than $15 million each.

> "We started as a junior [type] company controlled by someone else. We now have our own operations, renegotiated by new management. It took $160 million — which shows the market believes in us."—Leveraged buy-out.

The remaining 13 of the 18 major investors averaged $6 million. Without the five biggest investors, the average for the whole sample drops to $1.4 million from $2.4 million. Without the 18 major investors, the other 66 entrepreneurs averaged an investment of $350,000 — still more than 10 times the average for all entrepreneurs. In the cross section, 80% had investments of less than $50,000 versus 24% for the successful entrepreneurs.

The service businesses are remarkable for their far smaller capital requirement at startup — an average of only $700,000. Half the service firms started with less than $100,000 versus a third for the whole sample.

Table 4.5 shows the sources of financing for the successful firms. The most striking observation is that the successful entrepreneurs' reliance on conventional financial institutions is more than double that of the cross section. The successful entrepreneurs also relied far less on their own financial resources, with almost half putting none of their own money into their new venture, whereas every single one of the cross section put up some money themselves. Three-quarters of the entrepreneurs who bought companies put none of their own money into them. The successful entrepreneurs also sought out other investors to a far greater degree, although they had about the same degree of success in persuading their friends and relatives to invest in them.

For refinancing, the picture changes significantly. All the entrepreneurs rely more heavily on conventional sources of financing, as might be expected, although one-third of the cross section still keeps away from banks. The successful entrepreneurs also put a lot more of their own money into the company once it's established than do the entrepreneurs in the cross section, most of whom don't put in any more at all after startup. Relatives and friends continue to play an important role in the cross section's attempts to refinance, but they disappear from the successful entrepreneurs' plans once the business is going.

**Table 4.5**[10] *Where the Finance Comes From*

| | Sources of funds at startup and for refinancing | | | |
|---|---|---|---|---|
| | **Cross section** | | **Successful businesses** | |
| **Source of funds** | **Incorporated** | **Unincorporated** | **Total** | **Bought cos.** |
| | % | % | % | % |
| **At startup** | | | | |
| Banks/financial institutions | 28 | 25 | 66 | 80 |
| Relatives | 9 | 20 | 17 | 13 |
| Friends | 6 | 11 | 6 | 7 |
| Other investors | 9 | 6 | 25 | 13 |
| Partner | 10 | 6 | — | — |
| Own money | 100 | 100 | 54 | 27 |
| Earnings | 3 | 2 | — | — |
| Government | * | — | 3 | — |
| Related company | — | — | 14 | 20 |
| Other | * | 1 | 2 | — |
| **For refinancing** | | | | |
| Banks/financial institutions | 74 | 60 | 94 | 80 |
| Relatives | 13 | 18 | — | |
| Friends | 6 | 13 | — | — |
| Other investors | 11 | 5 | 8 | 13 |
| Partner | 2 | 1 | — | — |
| Own capital | 6 | 6 | 35 | 40 |
| Earnings | 7 | 11 | — | — |
| Government | 1 | 4 | 11 | 7 |
| Other | — | 1 | 2 | |

*less than half of one percent

[10] *Ibid.*

Almost two-thirds of the successful companies use government assistance of some kind or other, although not usually for financing. Government financing is barely used at startup by either the cross section or the successful firms. However, once they're established, a tenth of the successful businesses use financial assistance from the federal government, 7% from the provincial government. Only 5% use Small-Business-Loans-Act loans and 4% use Small Business Development Corporations.

The most popular contributions from governments are salary assistance programs (used by a third of the successful companies), mostly in retail and service firms where more than half use them. Manufacturers, however, are the biggest users of government programs, probably because so many of the programs are aimed exclusively at the manufacturing sector. The other popular programs are the federal government's PEMD (Program for Export Market Development) and the provincial government's TIBI (Training in Business & Industry), both of which were used by a quarter of the manufacturers.

The successful companies are typically activists. They like running the show — only a fifth of them think they need to delegate more — and they're hands-on managers. Three-quarters of them made organizational changes in the last five years, mostly restructuring, increasing management and expanding facilities.

> "We have had a total reorganization. We have only one manager with us now from the old days (before we bought). We have put in a strong middle management force and a good re-education program. We are totally computerized." — Manufacturer.

The companies that had been bought made fewer changes, presumably because a going concern needs fewer adjustments than a startup, but one-fifth of these companies added skilled workers, double the rate of the rest of the group. The other area where the bought companies were more active was in changing the ownership structure, again a common occurrence when large sums have been invested in a takeover.

These people view the future with some equanimity. A third of the bought companies and a fifth of the whole group say they expect no changes or only minor changes in the next five years. They also expect to stay in the same place. Two-thirds of them haven't moved in the past five years and most of the rest stayed within the same municipality when they did move. They expect more of the same for the next five years.

Which brings us to planning. Most of them have formal, written plans, even though more than half of them didn't have one when they started up. Retailers, half of whom are franchises, almost all have formal written plans. Presumably the big-leaguers who invested more than $1 million at startup had full-scale plans — investors don't put out money on that scale without one — and only 40% of the entrepreneurs who bought operational companies started out without a plan. Nevertheless, it is surprising that a higher proportion of the cross section started out with a formal plan than the successful group.

> "We know where we're going but there is nothing written in stone. I don't believe in *written* anything. A new business doesn't have time to think of that. You just get on with it! I feel that you need to be flexible — you don't have the luxury to sit around and make plans, especially written ones. We had a plan! We wanted to take 25% of the market and we knew we had to do that. We only needed to know that and we did it. Without a written plan." — Manufacturer.

They're different, and unpredictable. That's why they succeed.

# 5 Government Imperatives and the Small Business Response

The newly prominent role of small business as a driving force in the economy has had an unexpected result: governments seeking efficient ways of implementing social policies no longer regard small businesses as peripheral. As their economic weight begins to be felt, small businesses are beginning, in turn, to feel the weight of government priorities.

The most significant initiative in Ontario in this respect has been the passage this year of legislation governing equal pay for work of equal value. A second set of initiatives, equally far-reaching, is the intense scrutiny of the tax system at both federal and provincial levels.

Much of the fierce debate over pay equity revolved around the ability of small businesses to handle the administrative workload imposed by such a complex system. The extra paperwork would be a heavy burden. Most of all, however, the majority of the entrepreneurs who own and run these businesses simply don't have the time or the resources to grapple with elaborate personnel systems.

## Personnel Practices

A recent survey[1] in Ontario of 302 small firms employing fewer than 100 people found that only 5% of them said they have personnel managers. Even in firms with 50-99 employees, only 11% have personnel managers. Most owner/managers delegate the major responsibility for the personnel function, with only slightly more than a third handling the responsibilities themselves on a part-time basis.

Inevitably, small businesses don't build elaborate, formal systems to define their employees' jobs, evaluate their performance within those definitions and pay them salaries according to pay scales geared to the evaluations. That doesn't mean salaries don't reflect performance, however. Almost half of them have special arrangements such as bonus plans, stock plans or merit pay. Two-thirds of these plans are aimed at all employees and the balance are intended mainly for management and professional employees. The larger firms in the small-business category

[1]Source: *"Pay Equity and Ontario's Small Business Sector"*, prepared by Urban Dimensions Group Inc. for Small Business Advocacy in Ontario's Ministry of Industry, Trade & Technology.

are more likely to have these special compensation plans but even the smallest, with fewer than 10 employees, use this approach in about a third of the firms.

When it comes to the nitty gritty of personnel systems, small firms are not keen practitioners of the art. Three-quarters of the small firms in this survey have no formal procedure for drawing up job descriptions. Most of them feel it is too difficult to define specific jobs ("everyone does everything") or the tasks to be described are self-evident and therefore don't require a formal description. Most of them say they give their employees verbal job descriptions, however.

Table 5.1 shows that only one-sixth of the small firms perform job evaluations. As might have been expected, the larger firms are more likely to have formal systems. There is, however, a strange blip where firms employing 10-19 people seem to be more likely to have job descriptions and evaluations than firms employing 20-49 people. There is no obvious explanation for this.

**Table 5.1**[2] *Personnel Systems Are Rare in Small Firms*

| Firm size (# employees) | Percentage of firms having | |
|---|---|---|
| | Job descriptions | Job evaluations |
| | % | % |
| 1-9 | 8 | 14 |
| 10-19 | 30 | 16 |
| 20-49 | 21 | 13 |
| 50-100 | 38 | 25 |
| **All sizes** | **24** | **17** |

Of the firms that do have formal systems for job descriptions, most have fairly detailed or very detailed descriptions. Half of them change the description as the need arises (when the job's function changes or a new employee takes the position) and half change at regular intervals.

In designing their job descriptions, almost all of them pay attention to the job activities, management role, responsibility and supervision. Very few of them pay attention to emotional or time pressures, physical working conditions and travel. A little more than half consider skills and education, equipment used on the job and contact with the public.

If there are no formal job evaluations, by far the most common basis for setting salaries is management's judgement of merit, followed by the

[2] *Ibid.*

firm's ability to pay (see Table 5.2). The smallest firms employing fewer than 10 people reverse these rankings. They think ability to pay is the most important factor and they devote below-average attention to merit.

**Table 5.2**[3] *What It Takes to Get a Raise in Small Firms*

Percentage of firms that consider the factors shown in setting wage and salary rates

| | Percentage considering the factor by firm size | | | | |
|---|---|---|---|---|---|
| **Factor** | **1-9** | **10-19** | **20-49** | **50-100** | **All sizes** |
| | % | % | % | % | % |
| Merit | 50 | 60 | 74 | 76 | 63 |
| Ability to pay | 54 | 38 | 34 | 27 | 36 |
| Supply & demand | 24 | 16 | 31 | 29 | 26 |
| Seniority | 4 | 12 | 7 | 15 | 9 |
| Expertise | 6 | 7 | 4 | 10 | 6 |
| Employee's future prospects | 6 | — | 4 | 2 | 4 |
| Collective bargaining | 1 | 2 | 4 | 8 | 4 |

The only other significant factor is "supply and demand" or the marketplace, which is ranked as the third most important factor by all the sampled firms. This usually means they assess the market through individual situations, such as when competing job offers are made to valued employees, and by informal consultation with other employers in the same area or business. Some professional practitioners of personnel systems discount this practice, preferring market research that involves elaborate wage and salary surveys, but when there are so few people involved, scientific surveys are largely irrelevant anyway.

Contrary to popular belief, small firms are quite progressive in the employee benefits they provide. Table 5.3 shows that the most popular benefits are group life insurance, company-paid OHIP or a private medical plan, compassionate leave and severance pay. The least popular, by far, is paid maternity leave. Pension plans are offered by only 37% of small firms.

It is notable that the firms employing 20-100 people are twice as likely to offer employee benefits as the smallest firms, employing fewer than 20. Also, the benefits the smallest firms provide reveal different priorities, with medical plans and short-term sickness rating high and group life insurance rating relatively low.

[3] *Ibid.*

**Table 5.3**[4] *Employee Benefits Offered by Small Firms*

| Benefit | Percentage of firms offering a given employee benefit | | | | |
|---|---|---|---|---|---|
| | 1-9 | 10-19 | 20-49 | 50-100 | All sizes |
| | % | % | % | % | % |
| Group life insurance | 21 | 59 | 81 | 89 | 63 |
| OHIP or private medical plan | 28 | 43 | 66 | 89 | 58 |
| Bereavement leave | 28 | 59 | 64 | 84 | 58 |
| Severance pay | 32 | 54 | 67 | 78 | 58 |
| Short-term sickness | 31 | 50 | 59 | 76 | 53 |
| Long-term disability | 17 | 48 | 66 | 69 | 50 |
| Vision care, hearing, dental | 20 | 52 | 58 | 75 | 51 |
| Pension plan | n/a | n/a | n/a | n/a | 37 |
| Paid maternity leave | 11 | 16 | 18 | 21 | 16 |

## Women at Work

The average wage paid to women in Ontario is about 62% of the average wage paid to men. This gap has fallen only three percentage points in the past 18 years, despite many attempts to deal with it.

According to the green paper on pay equity, the overall 38% wage gap is the result of four major differences between the work performed by men and women:

| | |
|---|---|
| 1. Women work fewer hours than men | 16% |
| 2. Women's workforce experience, education and degree of unionization is less than that of men | 5%-10% |
| 3. Women are concentrated in certain job ghettoes which are rated relatively low for salary purposes | 10%-15% |
| 4. Some employers are still not respecting the law requiring equal pay for equal work | 5% |
| All factors | 38% |

The job ghettoes are striking. Females account for 98% of typists, 92% of nurses and 69% of people in food services. By contrast, they account for only 2% of construction workers, 10% of engineers and 32% of university teachers.

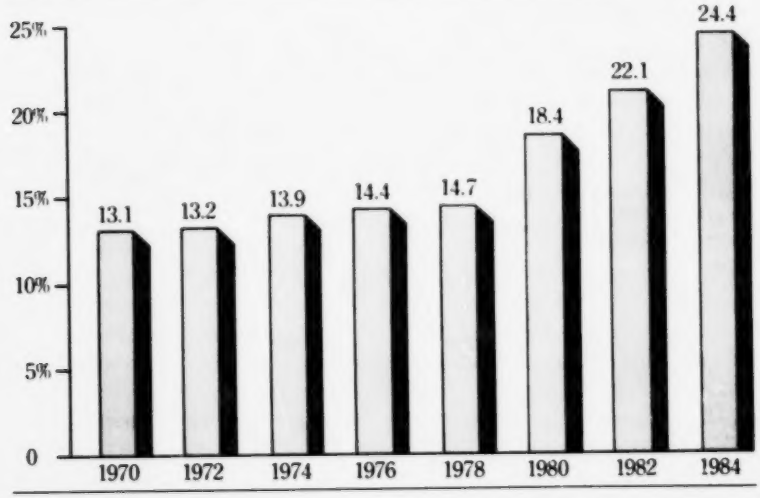
[4] *Ibid.*

**Table 5.4**[5] *Concentration of Women by Occupation*

| Occupation | Percentage of women workers |
|---|---|
| | % |
| Clerical | 79 |
| Services | 61 |
| Sales | 45 |
| Managerial and professional | 37 |
| Materials handling | 35 |
| Farming, fishing, forestry | 26 |
| Manufacturing | 21 |
| Transport equipment operators | 10 |
| Construction trades | 2 |
| Others | 27 |

There is one occupation that is changing quickly. Chart 5.1 shows how women entrepreneurs are moving perhaps faster than in any other area to increase their share of their occupation.

**Chart 5.1**[6] *Percentage of Entrepreneurs Who Are Women, Canada, 1970-1984*




[5]Source: *"Green Paper on Pay Equity"*, Honourable Ian Scott Q.C., Attorney General and Minister Responsible for Women's Issues.
[6]Source: Revenue Canada.

Table 5.5 shows how much the concentration of women workers varies between industries. It's notable that the smallest firms employ a significantly higher percentage of women than all other sizes of small business in every industry except manufacturing.

**Table 5.5**[7] *Female Job Ghettoes, Canada, 1983*

| Industry | Female employees as a % of male employees by firm size (employees) | | | |
|---|---|---|---|---|
| | 0-4 | 5-19 | 20-49 | 50-99 |
| Primary | 41 | 33 | 24 | 24 |
| Manufacturing | 48 | 44 | 47 | 56 |
| Construction | 16 | 11 | 8 | 6 |
| Transport, Communications & Utilities | 41 | 30 | 25 | 31 |
| Wholesale Trade | 51 | 41 | 45 | 47 |
| Retail Trade | 89 | 64 | 64 | 60 |
| Finance, Insurance & Real Estate | 106 | 101 | 107 | 82 |
| Services | 184 | 138 | 123 | 119 |
| **Total** | **75** | **65** | **62** | **63** |

## Pay Equity

The Ontario Women's Directorate estimates that the pay equity legislation introduced earlier this year can remove between a quarter and a half of the wage gap for women. However, as the law is drafted, its effectiveness will rest to a significant degree on how well the system works for small businesses, which employ about half of the working women in the province.

Since small businesses don't have to post formal plans for meeting the provisions of the law, many of the disputes will be individual cases. These can be dealt with by arbitration or by formal hearings before the Pay Equity Hearings Tribunal. A great deal will depend on the quality of the communication between employers and their employees, which will determine the degree to which both will resort to legal proceedings to settle their differences.

There is moreover some doubt as to the level of understanding of

[7]Source: *"Achieving Pay Equity in Small Businesses in Ontario"*, prepared for the Policy and Research Branch of the Ontario Women's Directorate, by Blackhurst van Beinum & Associates.

pay equity in small businesses. The survey of small firms[a] referred to earlier found that 54% of the firms with fewer than 10 employees said they already had pay equity and 22% said they could implement pay equity in less than a year. Only 12% didn't know how long it would take them to integrate pay equity into their personnel practices.

By contrast, only a quarter of the firms employing 50-100 people said they already have pay equity and 41% said they didn't know how long it would take them to implement it. The inference is that the smallest firms don't appreciate just how much is involved in pay equity. The government accordingly decided to exempt entirely the smallest firms from the provisions of the act.

Even for firms employing 10-100 people, the lack of understanding of pay equity is a significant barrier to strict enforcement of the legislation. Less than a quarter of the firms in the survey mentioned above realized they would have to develop some method to take account of their employees' skills, effort, responsibilities and working conditions. The government accordingly made the process less rigorous for these firms, although they still have to comply with the law's provisions.

The main elements of the pay equity legislation as it affects small business are as follows:

1. The act does not apply at all to firms with fewer than 10 full-time and permanent part-time employees.
2. Employers with 10-99 employees are covered but they do not have to prepare a pay-equity plan outlining the areas of discrimination and measures planned to correct them. However, employees can complain about inequities and, if they do so, employers have to defend themselves before pay equity officers. Part of that defence will involve preparing assessments comparing jobs performed primarily by men with those performed primarily by women. If pay equity officers deem there are pay inequities, they can issue orders to the employers to adjust their wages accordingly. That order can be appealed to the Pay Equity Hearings Tribunal. Failure to comply can incur fines up to $25,000 for a firm, $2,000 for an individual. Employers are not allowed to penalize employees who lodge complaints and employees who make trivial or frivolous complaints may be refused a hearing by the Review Officer.

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[a]Source: *"Pay Equity and Ontario's Small Business Sector"*, prepared by Urban Dimensions Group Inc. for Small Business Advocacy in Ontario's Ministry of Industry, Trade & Technology.

3. Complaints can be lodged five years (50-99 employees) or six years (10-49 employees) after the effective date of the legislation.
4. Adjustments for pay inequities are limited to 1% of the previous year's total payroll.
5. Pay inequities exist when there are two job classes in the same establishment, one dominated by women (more than 60% women) and the other dominated by men (more than 70% men), that are comparable in value but paid different wages. An establishment is defined as an operation within a regional municipality, county or territorial district. An employer that has a warehouse in Ottawa and a plant in Toronto does not have to achieve pay equity between the two operations — only within each of them.
6. Comparability is assessed by rating jobs on the basis of four criteria:
   - Skill
   - Effort
   - Responsibility
   - Working conditions.

   The jobs can be rated on these criteria by any reasonable method chosen by the employer. This could be ranking the jobs within each criterion and then adding up the rankings for each job. It could be more complicated with points assigned for each criterion and then adding up the points for each job.
7. Wage differences can exist for reasons unrelated to gender — e.g., merit, skills shortages, seniority, hours worked, differences in education, experience, etc.
8. The Pay Equity Office will provide people to address seminars and to advise individual firms on the policies and requirements of the legislation.

### Payroll Taxes

Taxing employers for employing people has long been a bone of contention in small businesses, which tend to be more labour-intensive than big businesses. In the past few years, this issue has been exacerbated as payroll taxes have grown significantly as a percentage of wages and salaries.

A recent survey[9] found that the higher level of payroll taxes now

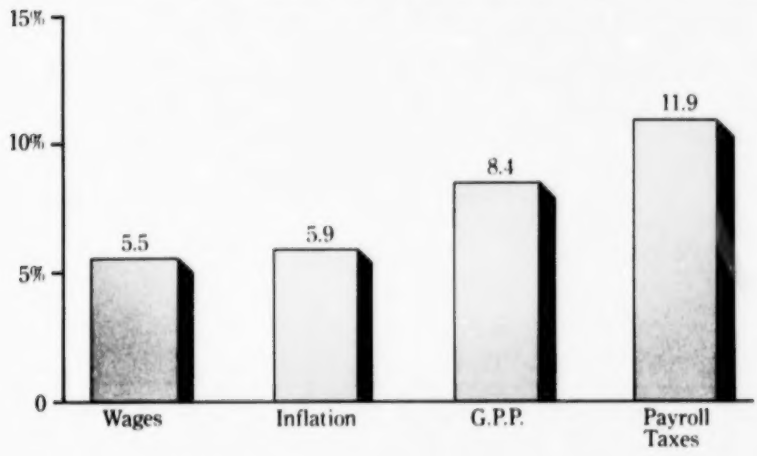
[9]Source: *"Small Business Payroll Taxes, 1986"*. Prepared by Jackie Wood for the Small Business Branch, Ministry of Industry, Trade & Technology.

threatens to deter small firms from hiring and to impair job creation. Among firms less than three years old, two-thirds said they consider payroll taxes when hiring. Even among manufacturers employing 50-100 people, 40% said they consider payroll taxes when hiring.

Payroll taxes as a whole rose almost 90% between 1981-87, far outweighing inflation, wage increases and growth in the Gross Provincial Product, as Chart 5.2 illustrates.

**Chart 5.2**[10] *The Payroll Tax Load, 1981-1987 (1)*

Average annual increases in payroll taxes
compared to key economic indicators




The bulk of the increase in payroll taxes came from Workers' Compensation Board premiums, which rose 149% over the six years, exceeding the combined annual increases of premiums for Unemployment Insurance and Canada Pension Plan. Chart 5.3 shows how payroll taxes per employee have grown over the six years.

To grow this fast, payroll taxes have had to increase more than 11% a year during 1981-87. Table 5.6 shows how this has raised the proportion of salaries that employers have to pay for payroll taxes.

[10]Source: *"Small Business Payroll Taxes, 1987"*. Prepared by Jackie Wood with the assistance of Allison Barr, for the Small Business Branch, Ministry of Industry, Trade & Technology.

**Chart 5.3**[11] *The Payroll Tax Load, 1981-1987 (2)*

Small business payroll taxes per employee

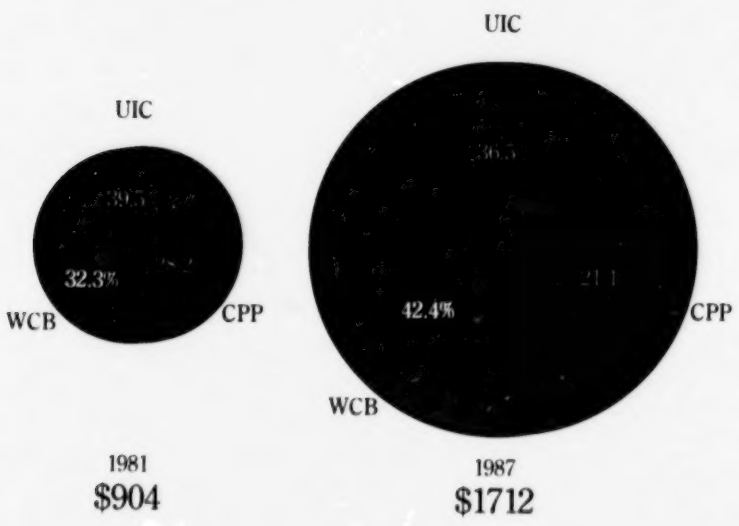



**Table 5.6**[12] *The Payroll Tax Load, 1981-1987 (3)*

| Payroll tax | Average annual increase 1981-87* | As a % of payroll 1981 | As a % of payroll 1987* |
|---|---|---|---|
| | % | % | % |
| Unemployment Insurance | 9.8 | 2.4 | 3.0 |
| Canada Pension Plan | 6.0 | 1.7 | 1.7 |
| Workers' Compensation | 16.4 | 1.9 | 3.5 |
| **Total** | **11.2** | **6.0** | **8.2** |

*Actual costs for 1981-85; estimated costs for 1986 and 1987.

[11] *Ibid.*
[12] *Ibid.*

## Tax Reform

Tax reform will change a lot of things in business, but it won't make it any simpler. The shift away from income tax to consumption tax is generally applauded — provided the introduction of a national sales tax goes ahead as planned and within the guidelines generally agreed upon by the government and the business community.

For corporations, the general intent of the federal white paper on tax reform, released in June of 1987, is to raise federal tax rates slightly from 19.9% to 21.1%, but an exception will be made for small businesses. The small-business rate will drop to 12% from 15%, but other changes in the tax regime will increase tax payable. The net effect will be an average tax rate of 13.5% before and after tax reform. Most small businesses have some income which doesn't come under the $200,000 limit of annual income that qualifies for the special small-business rate, so they pay at higher rates on the excess, raising the overall level of tax to 13.5%.

The small business community is satisfied with this approach, although manufacturing firms will be hurt. Manufacturers currently enjoy a special reduction in tax rates of five percentage points, which they will now lose — along with tighter provisions for Investment Tax Credits and Capital Cost Allowances.

For manufacturers, the combined federal/provincial tax rate after tax reform will be slightly lower than in the U.S., but general corporate rates will be 1% to 7% higher than U.S. rates.

Some small businesses may incur extra administrative costs of about $850 a year owing to the new requirement that payroll source deductions be remitted to the federal government weekly by firms with monthly remittances of more than $15,000. Raising the monthly remittance floor to $50,000 would alleviate the burden on small firms.

There is also some concern that the broad new anti-tax-avoidance provisions inject an element of uncertainty into business planning. The government has suggested a new "business purpose" test and a "step analysis test" that would allow Revenue Canada to look at each step of a business transaction to see if it has any useful business purpose other than tax avoidance.

As regards personal taxation, the intent of the white paper is to equalize the tax treatment between salary or bonus, dividends and capital gains.

Two important measures on capital gains tax affect small businesses. Capital gains up to $100,000 are currently exempted from capital gains tax. This limit was supposed to rise to $500,000 but tax

reform will cap the exemption at its current limit for everyone except farmers and small businesses who will be allowed up to $500,000 of capital gains tax-free from 1988. Against that, the calculation of taxable capital gains will be changed so that two-thirds of the actual gain will be included in income in 1988 and three-quarters in 1990.

The dividend tax credit has been reduced to reflect the lower corporate tax rate. For a taxpayer in the top tax bracket and living in a province with a personal tax rate of 50% of the federal tax, the new treatment would make income from salaries or dividends taxable at the identical rate. However, once the new provisions for capital gains tax have been implemented, capital gains in excess of the exemption will be taxed more highly than dividends. It is suggested that lowering the inclusion rate for capital gains to 70% from 75% would equalize the tax treatment between dividends and non-exempt capital gains.

As regards deductions from corporate income for tax purposes, there is not great concern about the 80% limit on expenditures on meals and entertainment, which is regarded as reasonable. The new limitations on car expenses, however, are generally felt to be excessively stringent.

Under the new rules, a person will have to prove a company car is used 90% for business before being allowed to deduct car expenses on roughly the same basis as is currently allowed. Below 90%, the deductible amount falls to 20% of the expenses (and allowable expenses have been trimmed, too). This may prove difficult in terms of record-keeping — and is probably unfair. In particular, the limits on the Capital Cost Allowance for company cars used less than 90% for business does not reflect fairly the greater wear and tear on them, which raises the cost of a lease and reduces the resale value of a purchased car. There is no great argument with the limit of $20,000 on the cost of a car for the purposes of calculating the Capital Cost Allowance.

Investment Tax Credits are being reduced and the amount that can be deducted is limited to only half of the total tax bill. Small businesses are given a break here, however. They can deduct the full credit up to the maximum tax on $200,000 of income (*i.e.* $24,000) plus half of the excess. Several items under the Capital Cost Allowance provision have also been reduced, most notably the fast write-off for manufacturing and processing equipment, which will no longer be calculated on the basis of a three-year straight-line write-off, but on a 25% declining balance.

The most significant element in this round of tax reform is the proposal for a National Sales Tax or a Business Transfer Tax. The latter would be a simplified version of the Value Added Tax so popular in

Europe. A model[13] that demonstrates the impact on small business of the BTT shows that profits are likely to be severely affected for firms that are unable to pass along the extra charge for the tax to their customers.

An example of the impact of a 7% BTT was calculated for an incorporated retail florist with annual sales of $250,000:

**Table 5.7**[14] *The Impact of the BTT on the Bottom Line*

Projected net income after taxes without the BTT and with the BTT assuming differing ability to pass on the tax to the customer

| | Current system | With BTT (absorbed)* | With BTT (passed on)* |
|---|---|---|---|
| | $ | $ | $ |
| Sales | 250,588 | 250,588 | 268,129 |
| Cost of goods sold | 118,778 | 127,092 | 127,092 |
| Gross Profit | 131,810 | 123,496 | 141,037 |
| Expenses | | | |
| Wages | 63,900 | 63,900 | 63,900 |
| Benefits | 2,506 | 2,506 | 2,506 |
| Rent | 10,525 | 11,262 | 11,262 |
| Depreciation | 3,759 | 3,759 | 3,759 |
| Interest | 4,761 | 4,761 | 4,761 |
| Taxes (bus. & prop.) | 3,007 | 3,007 | 3,007 |
| Other | 37,087 | 39,683 | 39,683 |
| Allowable expenses | 125,545 | 128,878 | 128,878 |
| Net income | 6,265 | (5,382) | 12,159 |
| Margin subject to BTT | — | 72,551 | 90,092 |
| BTT | — | 4,746 | 5,894 |
| Taxable income | 6,265 | (10,128) | 6,265 |
| Federal tax | 775 | 0 | 775 |
| Provincial tax | 726 | 100 | 726 |
| **Net income after taxes** | **4,764** | **(10,228)** | **4,764** |

*The calculations assume that the BTT is fully absorbed by the seller in the first case and that the BTT is passed on in full to the customer in the second. The sales figures are adjusted accordingly.

[13]Source: *"Business Transfer Tax: Modelling the Impact on Small Firms"*. 1987. Prepared for the Small Business Branch, Ministry of Industry, Trade & Technology, by Edith McBoyle, Lynda Goy and Linda Ganong.
[14]*Ibid.*

A potential problem for the BTT is that, since there's no guarantee a firm can pass on the BTT to its customers, the tax may hit harder at labour-intensive firms.

The critical concerns regarding consumption taxation for the small-business community are: that the tax base be harmonized between the two levels of government, that the rate be the same on all taxable goods and services within a province, and that exemptions from the tax base be held to a minimum. The small business community has a strong preference for a single federal/provincial sales tax administration.

Studies indicate that a federal rate of 4.4% on a broadened base with no exemptions would be revenue neutral.

# 6 Financing

This country's financial markets are as sophisticated as any in the world. That means big and medium-sized businesses enjoy access to a diversified and dynamic capital market. The same cannot always be said of small businesses. Small loans and investments that require anything more than routine administration are unlikely to be profitable for institutional lenders and investors. The profit margins are just too thin.

The chartered banks continue to be the major players in financing small businesses, but slimmer margins are forcing them to streamline their lending procedures and tighten up their loan portfolios in an effort to shed the poorer risks. The better credit risks — particularly the solid firms that aren't seeking dramatic growth rates — can still obtain money relatively easily, but the firms that present a greater risk to investors and lenders are finding it tougher to get financing.

Entrepreneurs starting new firms continue to fund their equity requirements primarily out of personal savings, augmented by investments from friends and relatives. And they continue to be underfinanced. (The major exception to this rule are the kinds of firms profiled in Chapter 4 — successful companies that aim for rapid growth from the beginning.)

Governments and their agencies have therefore been trying to find ways to alleviate the situation, so that owner/managers of young companies can spend more time on their businesses, and less time chasing financing. It has been difficult for governments to make the transition from dealing with nine-figure investments that create hundreds of jobs each to creating an environment that suits startups with an average investment of $30,000. But there are signs of progress. The trend is to downplay grants. Equity investments are recognized as being important because most small businesses are too highly leveraged. And, to protect themselves from fraud in situations where there are just too many investments to monitor properly, governments are insisting that there be some private-sector involvement.

## Equity Financing

### *The !nformal Risk-Capital Market*

The equity in most small startups still comes from the entrepreneur's personal savings and the "business angels" who invest in people they

believe in. A recent study[1] has made an important contribution toward understanding these angels in a specialized area, the high-technology industry in the Ottawa-Carleton area. The study interviewed in depth 25 private investors and 23 entrepreneurs.

The investors had committed a total of $17 million of risk capital in 156 investments, for an average investment of $109,000. All but two of them had been previously involved with top management in a startup. They had rejected, on average, four out of every five proposals they saw. The most common reasons for rejecting deals were lack of confidence in the management (80%), followed by low market potential (50%) and unfamiliar technology (40%). Other important reasons for not closing deals were a poor return relative to the risk and a poor business plan. Too high a price for shares in the company was cited as a reason for rejection in only 12% of the cases. These investors were not generally in search of control. Only 14% had more than 25% of the voting shares in the companies in which they invested. But they had the flexibility to become involved, if necessary — 85% of their investments were within 50 miles of their homes or offices. On average, they expected to liquidate their investments (usually by going public) after five years, although some were prepared to wait as long as 15 years.

Most interesting of all, these investors rejected the usual rule of thumb in the venture capital industry that, out of every 10 investments, two are winners, two are losers and six are "walking wounded". Instead, the private investors expected 2.7 to be winners, 2.9 to be losers and 4.4 to be middling. The expected net annual return on their portfolio of startup investments was 32%.

All but one of the entrepreneurs had annual sales of less than $10 million and one had sales of $10-$20 million. Half of the entrepreneurs had growth rates of 10%-50% and a third had growth rates of more than 50%. The average firm was five years old and employed 29 people.

The most important source of risk capital was their own resources (85%), followed by informal investors (angels) and friends and relatives, both cited by half the entrepreneurs. Only 22% cited venture capitalists and government as a source of funds. Predictably, these entrepreneurs usually suffer from a shortage of funds and most resorted to using short-term debt financing for long-term needs, even though they almost all recognized that as being undesirable. On average they estimated they spent one-sixth of their time looking for funds — and 17% of them spent at least 30% of their time chasing down money.

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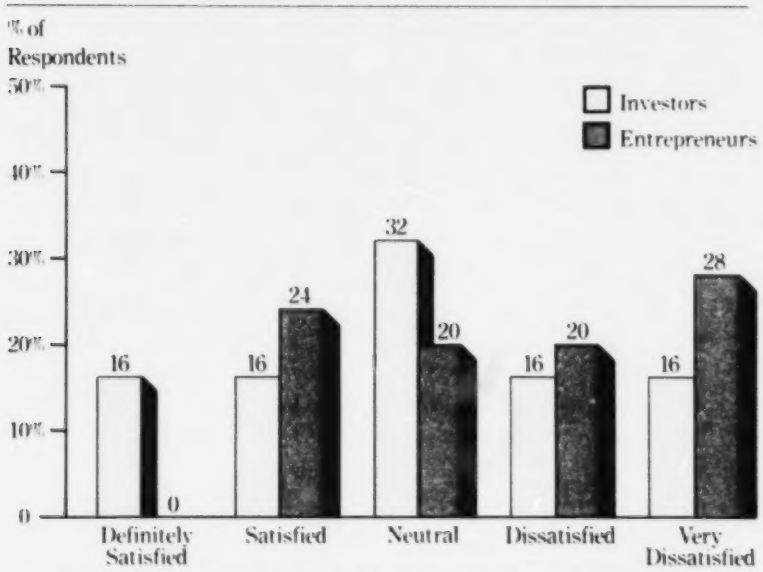
[1]Source: Allan Riding and Dominique Short, Carleton University, in *"Some Investors' and Entrepreneurs' Perspectives on the Informal Market for Risk Capital"*. 1987.

The entrepreneurs feel, as the next two charts illustrate, that the network of potential investors is quite inadequate. The investors are content.

**Chart 6.1**[2] *Views on the Risk Capital Market*

Entrepreneurs' and investors' levels of satisfaction with the informal risk capital market

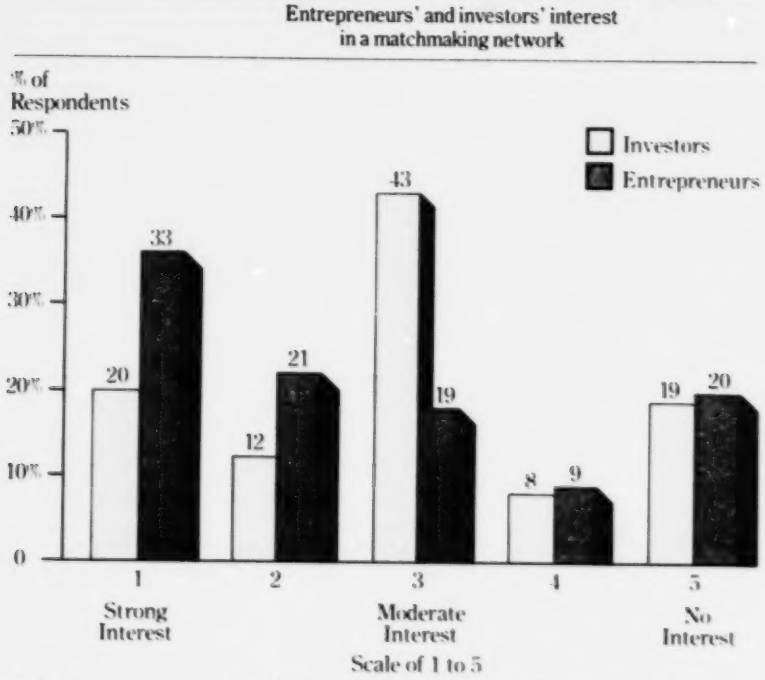



The matchmaking networks in Canada appear to be significantly less developed than in the U.S., according to a number of studies. The challenge is to build on the isolated networks such as that in Ottawa-Carleton to develop a more efficient market in informal risk capital. The study of the Ottawa-Carleton network found that investors prefer a regional network, while entrepreneurs prefer to go national in their search. A non-profit, non-government organization was strongly preferred by both investors and entrepreneurs. Investors said they'd start being interested in joining such an organization if the fee was $100, while entrepreneurs would gladly shell out $350.

The Ontario Chamber of Commerce, in concert with the Ontario government, Price Waterhouse and Xerox, is attempting to meet this need. With seed money contributed by the Ontario government, the

[2] *Ibid.*

**Chart 6.2**[3] *Interest in a Matchmaking Network*




Chamber established COIN (Computerized Ontario Investment Network), which started operations in November of 1986.

COIN is a non-profit service operated through the Chamber's 160 branches across the province and through the foreign trade offices of the Ontario government. It carries computerized files of investors and entrepreneurs, the former paying $250 for one year's listing, the latter $150. To be listed, entrepreneurs or investors fill in a form outlining their operations and preferences.

The computer then matches, very quickly, the profiles of the two sides of a potential deal, and produces a list of matches and near-matches. The investors are then sent profiles of the entrepreneurs who meet their needs, and, if they like what they see, they are sent an executive summary of the entrepreneur's business plan. If it still looks good, the two parties are asked if they want to reveal their names, so

[3] *Ibid.*

that a meeting can be arranged. Three-quarters of the investors are informal investors, the market that COIN was intended to penetrate. The balance are venture capital companies. The investors are each interested in an average of five of the following categories, listed in order of popularity:

**Table 6.1**[4] *What Business Angels Like to Invest In*

| Sector | Investor interest |
|---|---|
| Manufacturing — industrial and commercial products | 77% |
| Manufacturing — consumer products | 60 |
| Manufacturing — high tech products | 44 |
| Wholesale trade | 40 |
| Service — non-technology related | 39 |
| Real estate/construction | 35 |
| Service — technology related | 32 |
| Communications/publishing | 30 |
| Financial services/insurance | 25 |
| Medical/health care | 25 |
| Recreation/tourism | 25 |
| Retail trade | 25 |
| Energy/natural resources | 16 |
| Computer software | 12 |
| Transportation | 12 |
| Education/training | 11 |
| Agriculture/fishing/forestry | 4 |

The Federal Business Development Bank has been running a comparable matchmaking service for the past few years. It charges $250 for a year's listing to both investors and entrepreneurs seeking capital. It, too, has a computerized data base, and it also publishes lists of opportunities and investors in each issue of its quarterly tabloid paper, *Profits*. This data base is available in 77 FBDB offices in Canada and 67 federal offices in other countries.

In the year ended March, 1987, Financial Matchmaking had on file 394 investors and 407 entrepreneurs and the service completed 38 matches involving a total investment of $5.9 million. Since the service started, it has consummated 100 matches, involving more than $10 million. The sizes of the deals range from $20,000 to $1.6 million.

[4]Source: COIN, the Computerized Ontario Investment Network.

FBDB staff will sit in on the negotiations and help structure the deal. The bank collects a fee of 5% of the investment or a minimum of $2,500 if the deal closes. Bank officials do not see this service growing fast as it takes an enormous amount of effort to complete each match.

Last year the government announced it would introduce legislation to encourage Employee Share Ownership Plans. This legislation has not been tabled yet, but it envisages a subsidy for the establishment of the plan and a tax incentive for investing employees. The maximum investment proposed is $2,000 a year per employee up to 10% of the total shares. There are no special provisions for small firms.

### *The Formal Venture Capital Market*

In the formal venture capital industry, the capital under management rose to $1.5 billion in 1986, up 23% from the previous year, according to a recent study.[5] This still compares poorly to the U.S. where the capital stock in the venture capital firms is $24.1 billion. Furthermore, the Canadian companies tend to favour investing at a later stage in a firm's growth than in the U.S. — only a quarter of Canadian investments in 1986 were at an early stage.

Venture capital investors come from three main disciplines — private, independent investors who control 41% of the industry's financial resources, Crown agencies (23%) and venture capital arms of large corporations looking for diversification opportunities (36%). Private investors are assuming a more dominant role in the industry, having raised their share of the available capital from 36% in 1985. (In the U.S., private investors account for three-quarters of the available funds.)

Despite the increase in available funds, the amount committed in 1986, $206 million, was 16% lower than in 1985. Ontario took 31% of the funds, up from 24% the previous year. The average investment was $844,000. Private investors are shying away from early-stage investments, so their average investments are increasing. In 1986, they averaged $712,000 versus $472,000 in 1985. Much of this is caused by the growing presence of pension funds, which now account for about a half of all the resources of the private investors. In 1986, the pension funds committed two-thirds of the funds versus slightly more than one-third in 1985.

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[5]Source: Venture Economics Canada. *CVC, Canadian Venture Capital*, May, 1987. Editor Mary Macdonald.

Consumer-related firms took over top spot as targets for investment. Computer-related firms, which have long been the darlings of the venture capitalists, fell to 27% of the total in 1986 from 40% in 1984. The next two most popular were industrial products and genetic engineering, while medical products tripled to take the fifth spot.

Foreign investments apparently lost some of their allure in 1986 as the share that went to Canadian companies rose to 86% in 1986 from 70% in 1985 and 60% in 1984.

*Government-Sponsored Venture Capital*

The venture capitalists have left an equity gap at the smaller end of the market — from $50,000 to $500,000 — and this has drawn governments into the action. Most provinces now have programs in place to encourage equity investments in small firms, through tax incentives for private investors or through direct mandates as investors.

In Ontario, the main tools for this purpose are the SBDCs (Small Business Development Corporations) and Innovation Ontario Corporation. However, other government agencies, such as the Ontario Centre for Resource Machinery Technology in Sudbury, do engage in important venture capital activities. In a recent study[6] of these programs in seven provinces, it was found that these corporations do fill an important gap in the market:

- Most of the firms which have received funds from these companies have raised less than $250,000 to date. The median investment in the study was $220,000.
- A remarkably healthy 37% of the funds went to startups or seed money, compared to 26% with formal venture capital.
- Without the government programs, the investment would not have gone ahead in more than half the cases (ranging from 91% in the Atlantic provinces to 39% in Ontario). Virtually all the private-sector funding was obtained from individual investors — and their median investment was $50,000.

[6]Steven Globerman and Larry Olson, *"Government-sponsored venture capital programs; an analysis and evaluation"*. ICSB, 1987.

*Small Business Development Corporations*

The SBDC program has dispensed $135 million in grants and tax credits from the time it was started in 1979 to the end of March 1987. The details of the disbursements and the accompanying investments since the program started are shown in Table 6.2:

**Table 6.2**[7] *SBDC Investments*

| | |
|---|---|
| Number of applications | 1,023 |
| Number of registrations | 918 |
| SBDCs revoked or withdrawn | 311 |
| Net registrations | 607 |
| Number of individual investors | 11,234 |
| Number of corporate investors | 316 |
| Number of grants/tax credits approved | 15,706 |
| Amount of grants/tax credits approved | $134,642,060 |
| Grants/tax credits revoked or withdrawn | $ 6,906,823 |
| Net grants/tax credits | $127,735,237 |
| Number of investments | 1,851 |
| Amount of investments | $359,510,096 |
| Number of new small firms invested in | 823 |

The size of the individual grants or tax credits has been quite small. Three-quarters of them were less than $5,000 and 1.4% were for more than $100,000. However, the average total investment made per grant was $194,000.

The funds have gone mainly to manufacturing firms which accounted for two-thirds of the total of $360 million invested by all parties under the SBDC program. Tourism was next highest with just more than a quarter. Research and development, computer software, book publishing and services to mining all took less than 5%. There were no investments in services to forestry industries.

The program has been widely considered to be a success, having improved the access of small firms to equity financing. However, the SBDCs have not turned into small venture capital pools, tapping the informal investor network. Often the entrepreneur and the investor or investors found each other without the help of the SBDCs, so the SBDC acted less as a tool to bring investors and entrepreneurs together, more as a powerful incentive to close the deal once the two parties had found each other.

[7]Source: Ontario Ministry of Revenue.

Utilization of the program has slowed down in the past couple of years, despite the rapid increase in new business formations (see Chapter 1). Compared to the year ending March 31, 1985, the grants approved under the program in 1987 were down 28% and the total investments in businesses using SBDCs were down 38%.

Furthermore, earlier chapters have shown that service industries are the main driving force in new venture formation and job creation, so the exclusion of these areas from the SBDC program was working against the prevailing trends. This shortcoming was significantly reduced in the 1987 budget, which extended eligibility to firms providing services to business.

*Innovation Ontario Corporation*

Innovation Ontario Corporation (IOC) was created in July, 1986, to provide seed money to startups in high-technology enterprises. Working closely with the private sector, it also provides advice on financing, marketing and product development.

It's estimated that fledgling high-tech companies in Canada have less than one-sixth the supply of venture capital funds per capita than comparable firms in the U.S. The venture capital industry in Canada is also generally not interested in investing less than $500,000 in a single venture. The management time required to monitor an investment of $250,000 is much the same as for $1 million, so investments of less than $500,000 are often considered by the industry to be unprofitable. IOC should therefore fill an important gap in the capital market.

The IOC provides seed financing up to a maximum of $250,000 to help its clients grow to the stage where venture capital and institutional investors are able to finance them. The corporation also works closely with its clients to attract private-sector investors. To July, 1987, IOC had approved 54 investments totalling almost $6 million, to which private-sector investors had added another $12 million. Half the investments — and three-quarters of the funds disbursed — were equity. The remainder were royalty agreements. Software companies were the most popular, followed by electronic products, engineering, medical and biotechnology and agricultural technologies.

IOC received more than 400 proposals in eight months. In cases where a proposal is declined, the corporation's staff provide a detailed review of the project, with the aim of assisting the enterprise in further fundraising efforts. The most common reasons for declining applications were lack of growth potential, inadequate information, financing requirements beyond the scope of IOC and weaknesses in management.

Once a company is established and has attracted other investors, IOC seeks to divest its investments under an agreed formula that offers its clients an opportunity to repurchase IOC's investment at a fixed rate, usually within three years.

*FBDB's Venture Capital Division*

The FBDB is now a major player in venture capital markets. In the fiscal year ending in March, 1987, it committed to 19 investments for a total of $20 million. The previous year, the bank made 22 investments for a total of $12.5 million. The average investment in 1987 was much larger than in 1986 because there were four that were very large, including two in venture capital companies in which FBDB holds shares. Without these large investments, the average equity investment was $567,000. There are now 46 investments in the bank's venture capital portfolio, worth $43 million at cost. The projects in which the bank invested had a total investment of almost six times the bank's investment.

*Retirement Fund Venture Capital*

The federal government has passed legislation encouraging pension funds and owners of Registered Retirement Savings Plans to invest in small businesses. For pension plans, the legislation allows fund managers to increase their investments outside Canada above the normal limit of 10% of the total fund if they invest in small businesses. For each dollar invested in a small business, the foreign investment ceiling would be raised $3. For RRSPs, the legislation allows individuals to invest up to 50% of their RRSP in a small business not owned by a family member, provided the shareholding doesn't exceed a designated limit.

While the intent of the legislation has been applauded, the regulations designed to prevent abuse are so complex that there has been negligible interest in the RRSP program and the pension fund program has started to elicit interest only since the regulations governing it were amended.

A particularly serious problem for both is that Revenue Canada can retroactively rescind certification of an investment if the target company ceases to be qualified — even long after the investment has been made. A fund that invested in several companies would then risk having the entire fund disallowed, with serious tax consequences, if one of the investments slipped into becoming disqualified. This has been solved for the pension funds by allowing investments to be made under a qualified limited partnership, which permits the credit for foreign investments to

be taken as the small-business investments are made, rather than taking the credit for the fund when it is first assembled. For RRSPs, the problem has not been solved and trust companies are generally extremely reluctant to administer them because they would have to audit them every year.

In a recent study* of attitudes of investors and target companies in Ontario, the investors indicated they would strongly prefer to invest their RRSPs in companies controlled by family. Furthermore, only 12% of the potential investors surveyed would invest more than $50,000 and most wanted to liquidate their investments within five years. Not surprisingly, public awareness of the program is extremely low.

Since the regulations were amended for pension plans, at least two major venture-capital funds (both more than $50 million) have been formed to tap the market for small-business investments. It's likely that they and others will bring a significant infusion of capital into the venture capital market.

### Debt Financing

Canadian entrepreneurs are less willing to give up equity in their businesses than their American counterparts. They are therefore usually more highly leveraged with debt. The price of that reliance on debt was brought home forcefully to Canadian small businesses when interest rates went through the roof in the early 1980s.

That experience has changed the lending institutions as much as it has changed the borrowers. All the major lenders admit to having tightened the administration of their loan portfolios over the past five years. All are competing more aggressively for the good accounts. All are trying to get out of shaky loans. For the less well-secured small firms, this has meant relentless pressure to pay down bank loans.

Despite lower interest rates, which have improved small firms' interest-coverage ratios, there are still problems in the availability of loans at the low end of the market. This has forced greater government intervention through innovative programs like New Ventures.

Table 6.3 shows how lending has increased by the major lenders in Ontario. As a percentage of national loans, Ontario is taking about 20% of the chartered bank loans, 30% of SBLA loans and 25% of FBDB loans.

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*Source: G.G. Cunningham & Associates, *"Study of Investment of Self-Directed RRSP Funds in Small Business"*, prepared for Small Business Advocacy, Small Business Branch, Ministry of Industry, Trade & Technology. 1987.

**Table 6.3**[9] *Who Lent Money in Ontario*

| Year | Loans less than $500,000 made to Ontario businesses | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Chartered Banks | | SBLA | | FBDB | | ODC | |
| | # | $million | # | $million | # | $million | # | $million |
| 1986/87 | n/a | n/a | n/a | n/a | 1,374 | 187 | n/a | n/a |
| 1985/86 | n/a | 22,455 | 6,126 | 209 | 1,038 | 121 | 1,085 | 126 |
| 1984/85 | n/a | 19,803 | 7,827 | 242 | 606 | 65 | 943 | 121 |
| 1983/84 | n/a | 19,424 | 5,433 | 152 | 422 | 43 | 561 | 78 |

*Chartered Banks*

The environment has changed radically for the chartered banks in the past five years. Quite apart from increased competition from Schedule B banks, international financings and trust companies, they have had to face a volatile economic environment that has changed the way they do business.

Banks make their profits on the spread between the cost of money (the interest they pay on deposits and other funds raised for the purpose of making loans) and the price of money (the interest rate charged on their loans). The advent of daily interest accounts and more sophisticated cash management by businesses has raised the cost of money for the banks. Competition has made it difficult for them to raise the price as much as they would like. According to the Canadian Bankers' Association, the spread for chartered banks has fallen since the mid-1970s, from 3.72% to about 3.25% during 1984-86.

These margins have not been enough to support the increased cost of doing business. To make matters worse, provisions for loan losses on Third-World loans as well as on loans to large, previously unassailable corporations like Dome Petroleum — not to mention an increased failure rate in small businesses since the recession of 1981-82 — have added pressure on profit margins.

The banks have accordingly put the profitability of their loans to small firms under a microscope. They are finding that the smallest ones are not profitable at rates of less than prime plus 2%. There is still money to be made in the personal accounts of owner/managers and it is

[9]Source: Small Business Advocacy, compiled from *Bank of Canada Annual Review, Federal Business Development Bank Annual Report, Small Business Loans Act Annual Report* and Ontario Development Corporation.

**Table 6.4**[10] *The Banks' Loans by Firm Size*

Outstanding demand and term loans by the chartered banks in Canadian funds at the end of each year

| End of period | Outstanding loans under authorized limits of: | | | | | |
|---|---|---|---|---|---|---|
| | Less than $500,000 | $500,000 to $1 million | $1-$5 million | $5-$25 million | More than $25 million | Total |
| | ($millions) | | | | | |
| 1986 | 22,364 | 5,256 | 13,888 | 14,874 | 15,401 | 71,786 |
| 1985 | 22,183 | 4,800 | 13,023 | 14,149 | 21,089 | 75,243 |
| 1984 | 21,365 | 4,814 | 12,574 | 13,727 | 22,292 | 74,773 |
| 1983 | 21,683 | 4,661 | 12,264 | 13,134 | 18,967 | 70,709 |
| 1982 | 20,517 | 5,023 | 13,113 | 14,596 | 25,765 | 79,015 |
| 1981 | 21,107 | 5,388 | 13,228 | 14,442 | 24,108 | 78,276 |
| | Less than $1 million | | | More than $5 million | | |
| 1980 | 19,356 | | 11,175 | 24,854 | | 55,385 |
| 1979 | 17,176 | | 10,026 | 17,665 | | 44,866 |
| 1978 | 15,163 | | 7,716 | 11,561 | | 34,441 |
| 1977 | 13,478 | | 6,722 | 11,125 | | 31,323 |

[10]Source: *Bank of Canada Review*.

still a good business decision to lend to smaller businesses in the expectation that many of them will give the banks more business as they become bigger. But the banks are questioning the way they treat small firms. At least one bank has decided to switch most of its smaller business clients, those with loans of less than $75,000, out of commercial categories into personal categories. All the banks are streamlining procedures. Many just won't make a small loan unless the borrower offers sufficient personal collateral. Table 6.4 shows how the smaller businesses have increased their loans outstanding with the Canadian banks. But the increase is quite a bit less than the increase in their sales and employment over the same period, so it would appear that, on average, they have reduced their recourse to bank loans. But nothing like the largest firms. The businesses with loans of more than $25 million paid down their bank loans in dramatic fashion in 1986, taking advantage of a buoyant stock market to repair their debt-equity ratios. Their outstanding loans are now running at 19% of the authorized limits, compared to 38% in 1982. Small firms are running at two-thirds of the authorized limit, little changed from 1982.

Loans of less than $500,000 now account for 31% of the loans outstanding versus 26% in 1982.

### *The New Ventures Program*

The New Ventures Program, introduced in September, 1986, is designed to encourage private-sector lenders to play a more active role in small business startups. The program offers loan guarantees to a maximum of $15,000 to new entrepreneurs who are willing to risk an equal amount, and who undertake to hire at least one full-time employee.

The loan can bear a floating rate of interest of prime plus 1% or a fixed rate negotiated between the borrower and the lender. Interest only is paid in the first year. The borrower and lender arrange a schedule for the repayment of interest and principal over the following four years.

The program is administered by nine participating lenders — the six biggest chartered banks, National Trust, the Credit Union Central of Ontario and L'Alliance des Caisses Populaires. The applicants must provide a business plan that meets requirements specified by the Ontario Development Corporation. A registration fee of $150, payable to the lending institution, is deducted from the loan.

The New Ventures program also fosters the participation of women in entrepreneurship. A target of 25% women borrowers has been set for the first year, rising to 30% by the third year. Also, 20% has been set aside for loans to entrepreneurs in the north and east. In these regions,

the cash investment by the entrepreneur is only 50% of the loan guarantee, compared to 100% in the rest of the province.

In its first year of operation, the participating lenders approved 3,142 applications for a total of $41.6 million in guaranteed loans. About 18% of the applications were declined. As might have been expected, the program started slowly, as Table 6.5 shows.

**Table 6.5**[11] *Applications for New Ventures Program*

| Month | Number of applications processed per working day |
|---|---|
| **1986** | |
| September | 3.0 |
| October | 8.4 |
| November | 11.3 |
| December | 9.2 |
| **1987** | |
| January | 10.4 |
| February | 13.0 |
| March | 17.0 |
| April | 20.6 |
| May | 16.4 |
| June | 15.5 |
| July | 14.3 |
| August | 14.5 |

The decline in applications processed over the summer is attributed to normal seasonal variations in loan activity as well as to the expiry of an advertising campaign in the early part of the year. To achieve the target of 5,000 loans a year, 20 applications will have to be processed per working day.

Women accounted for 26% of the borrowers, loans to the north and the east for 29% of the total funds advanced.

It is too early to gauge the extent of loan losses from this program, but, by the end of July, the government had paid out $251,000 to the participating lenders in loan defaults and estimated a contingent liability of $7.3 million for 1986-87.

[11]Source: New Ventures Program, Ontario Development Corporation.

*The Development Corporations*

The Ontario Development Corporation (ODC) was established in 1966 to provide financial assistance to small- and medium-sized secondary manufacturing industries and tourist operations. With its related corporations, the Northern Ontario Development Corporation (NODC) and the Eastern Ontario Development Corporation (EODC), it fosters job creation, high technology, exports, community and regional development and industrial diversification through the provision of loans and loan guarantees at levels of risk higher than those the private sector will normally assume.

The corporations also manage industrial parks and provide advisory, fiduciary and management services to various ministries on investment management and the delivery of sectoral and regional programs and capital projects. In 1986, Innovation Ontario Corporation and the New Ventures program were added to ODC's responsibilities.

Finally, the corporations provide financial advisory services to businesses, handling about 11,000 enquiries in 1986-87. About half are given basic advice on government programs and private-sector lending, another 25% are given specific advice on business financing, 15% are given detailed advice on preparing financial statements and business plans and 10% submit applications for ODC funding. With the New Ventures program and Innovation Ontario, enquiries are expected to increase to 24,000 a year.

The corporations now have an authorized asset base of $1.2 billion, with loans outstanding of $831 million. The loans and loan guarantees to small and medium-sized businesses, which account for much of the activity of the corporations, now stand at $219 million ($419 million approved).

Almost three-quarters of the outstanding loans are agency investments, managed by the corporations on behalf of other government agencies. About a quarter of the agency loans are to small businesses. The balance, representing about half the total portfolio, are capital projects, including the Ontario government's $50-million investment in American Motors Corp.'s new plant, the government's shares in Allelix and Varity and the $46-million portfolio of investments from the IDEA Corporation, wound up in June last year.

Agency activities have been the major source of growth in recent years. This is expected to continue through the Northern Ontario Heritage Fund and the Eastern Ontario Community Economic Development Program.

The development corporations use several types of loan

techniques. In 1986-87, the total lending was $154.8 million, in projects that generated total investments of more than $400 million. The loans in 1986-87 were distributed as follows:

**Table 6.6**[12] *How the ODC Lends its Money*

| Loans advanced | Share of total | Type of loan or guarantee |
|---|---|---|
| $ million | % | |
| 15.0 | 10 | Term loans |
| 36.7 | 24 | Incentive term loans (temporary concessions on principal repayment or interest, given to startups) |
| 15.4 | 10 | Loan guarantees |
| 30.6 | 20 | Incentive loan guarantees (including interest subsidies tied to cash-flow requirements) |
| 2.3 | 1 | Interest subsidy |
| 28.5 | 18 | Export Support Loan Program (which buys up to 90% of foreign receivables from exporters) |
| 3.0 | 2 | Forgivable loans, mainly on an agency basis |
| 19.9 | 13 | New Ventures Program |
| 3.3 | 2 | Innovation Ontario |

The average size of the 849 loans made under traditional programs (excluding New Ventures and Innovation Ontario) was $155,000 in 1986-87. However, more than a third of the loans were for loans of less than $50,000, and almost 60% were for loans of less than $100,000. In 1986, firms with 10 employees or less took 80% of the loans, accounting for 46% of the dollar amounts (this will increase significantly with the New Ventures program in 1987).

The level of risk undertaken by the development corporations in these many small loans was somewhat higher than other lenders in the market. The loan loss ratio is running at 3%-4% a year. With the mass-market New Ventures Program, this ratio will rise in the next few years. By comparison, chartered banks normally support a loan loss ratio of about 1%, the Federal Business Development Bank 1.5%.

In common with all other lenders, the corporations intend to tighten up their lending procedures, which will lead to tougher assessments of loans. The ODC also is introducing the Strategic Modernization Program to foster the development of internationally-competitive industries.

[12]Source: Ontario Development Corporation.

The loans are weighted toward eastern and northern Ontario. Loans per capita in the three regions amounted to $32 in the north, $17 in the east and $13 in the south. This disparity is expected to increase with the opening of two new branches in the north and one in the east, bringing the total to 14, including five in the north and four in the east.

The development corporations have embarked on a major revitalization program, which includes three central themes:

- The three main operating functions (loan applications, disbursements and administration) will be reorganized on a regional basis to streamline operations and improve loan accountability.
- The loan accounting procedures and operations will be modernized to increase productivity and improve the monitoring of the effectiveness of lending activities.
- A human resources development strategy will upgrade skills, improve services to business and provide staff with greater career development opportunities.

*SBLA Loan Guarantees*

The biggest loan-guarantee program in the country is the Business Improvement Loan Guarantee Program under the SBLA (Small Business Loans Act). Loans to businesses with annual revenues of less than $2 million are 85% guaranteed by the federal government. The maximum loan is $100,000 and the interest rate on the loan is prime plus 1%. In the year ending March 31, 1985, the federal government guaranteed loans totalling more than $1 billion, up 45% from the previous year. However, in 1986, loans advanced under the act declined by a third in number and by 27% in dollar amounts. The average size of loans rose to $31,273 in 1986 from $28,959 the previous year.

The chartered banks administer the program and they found that they could not make a profit at the designated interest rate of prime plus 1% on SBLA loans. Worse, the banks have had great difficulty in the past couple of years claiming losses under the guarantees because of inflexible interpretation of the new rules introduced in 1985. The administration of the SBLA program was adjusted at the end of June this year to correct some of the difficulties, but further changes may still have to be made, depending on the report of a task force appointed to study the program.

Ontario firms have made relatively little use of the SBLA program, having taken only 28% of the loans in 1986.

*Federal Business Development Bank*

After a severe retrenchment following the 1981-82 recession, the Federal Business Development Bank (FBDB) has started to lend aggressively in the past couple of years. In the year ending March 31, 1987, the FBDB authorized almost $1 billion in loans and loan guarantees, up 29% from the previous year and up 182% from 1984. The bank's total loan portfolio now stands at $2.1 billion. Ontario takes a disproportionately small share of FBDB loans — about 28% —although 38% of the bank's loans and loan guarantees to tourist operations were in Ontario in 1987.

The average size of FBDB loans has grown enormously in the past five years, reaching $163,000 in fiscal 1987 versus $108,000 in 1983. However, these figures are distorted by a few really large loans — 5% of the loans were for more than $500,000 and they averaged $1.1 million each. The median size of loans and loan guarantees in 1987 was $79,000. Almost 60% were less than $100,000.

# 7 Entrepreneurial Planning

Entrepreneurs are no cheerleaders for strategic planning. But careful analysis of what they do, rather than what they say, reveals that most successful entrepreneurs are conscientious planners. They just don't like the word.

The reputation of strategic planning has been tarnished by the excesses of the mechanistic blueprints churned out by over-trained specialists, who never could quite relate to problems and opportunities in the trenches. Many large corporations took note some years ago, abandoned planning as a separate discipline, and then duly lost their way.

Successful entrepreneurs have generally kept the essence of the process. They may not practise every element of textbook strategic planning, but they perform enough of them that it can be said accurately that their actions are based on their planning.

Planning means different things to different people. In the course of extensive interviews with more than 100 entrepreneurs running profitable, high-growth Canadian companies, their attitudes toward planning were compared with what they actually do in the specific activities that together comprise the planning function.[1] Their businesses cover every major industry category. Three-quarters of them are founders, 19% bought into businesses and 6% inherited businesses. 90% are males.

Almost three-quarters of them have owned their principal business for 15 years or less, more than half for 10 years or less. A few are very large (more than $1 billion in annual sales) and a few are very small, employing fewer than 10 people. Most (70%) are small or medium-sized, with annual sales between $2 million-$50 million. Average 1986 sales, excluding five very large companies, were $27 million.

What distinguishes the concept these people have of planning from the conventional wisdom — nourished by reams of big-company plans written in stone and enforced like the law — is that plans for entrepreneurs are totally flexible. Many of the successful planners in this study affirm that the process of planning is more helpful than the result. A detailed five-year plan does not preclude flexible responses, as long as the planner is prepared to throw it out of the window if necessary.

In essence, planning is deciding where a business should be at some

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[1]Source: Donald A. Rumball, *"Entrepreneurial Planning — Strategic Opportunism"*. ICSB, 1987.

point in the future and figuring out how to get there. It must be where the entrepreneur wants to be, otherwise it's just forecasting. It must also involve some stretching of the entrepreneur's potential, otherwise, why bother? Finally, planning is not the preparation of an annual budget and cash-flow forecast. Both of these are critical to the success of a venture but they are control mechanisms, not planning.

The essential point about planning, entrepreneur-style, is that it is based on the creation and recognition of opportunities. Entrepreneurs are by definition short of resources — if they had sufficient resources, they wouldn't have to be entrepreneurial. When they shoot for a goal, they do so without regard for the resources they currently control. This means that the methods by which they will achieve their plans often cannot be described, if only because the necessary resources, financial and human, cannot be known in advance.

There are six major steps in planning:

- Analysis of the firm's competitive situation. This covers, among other areas, market analyses, studies of changing customer needs, SWOT analyses (strengths, weaknesses, opportunities and threats), assessments of the firm's competitive position, its sources of competitive advantage, existing and potential competitors. It can best be summarized as strategic thinking.
- Identification of opportunities. Sometimes this is a deliberate plan, other times it's a question of an opportunity coming up for grabs. Either way, the opportunity must be recognized and seized.
- Establishing overall objectives. This includes identifying target market segments, developing a strategy to sustain the firm's competitive advantage, determining the overall direction, setting specific goals.
- Establishing a time frame.
- Action plans/allocation of resources. This includes the logistics of projects to get the business to there from here.
- Control and feedback. This is not part of the actual plan — it's more like implementation — but it's crucial if the plan is ever going to mean anything. It involves testing the assumptions on which the plan is based, monitoring events to compare them with the plan and, if necessary, changing the plan when it becomes apparent it's not going to work.

Entrepreneurs do, in fact, use all of these concepts, but they generally prefer not to express them in these terms.

The first one and the last two of these six steps are almost a way of life for most entrepreneurs. Many of them might not even include them in their concept of planning. The middle three — identifying opportunities, setting objectives and putting a time frame on them — elicit the most misunderstanding.

Identifying opportunities is what entrepreneurs do best. There appear to be two quite distinct perceptions of opportunity. Some believe that opportunities are created by their own skill, effort and good organization — that if they make up their mind to achieve certain goals, the opportunities will be there when they need them. Furthermore, they believe they won't have any trouble recognizing the opportunity because they will have prepared themselves so thoroughly. These people believe that success comes to people who create their own opportunities. They are not inflexible, however, as they have to move fast when the time is right. They are the **opportunity creators.**

Others believe that opportunities present themselves only briefly and must be exploited quickly, decisively, before they float away again. Often, these people create an environment in which business deals come to them and they pick and choose among them. They may also lie in wait for a specific opportunity for years. They are the **opportunity grabbers.**

Some find that they are a combination of the two, believing they create their own opportunities but recognizing that some opportunities just fall into their laps and they have to jump on them.

The entrepreneurs in this study are fairly evenly divided on this count, with 50% considering themselves to be opportunity creators, 41% opportunity grabbers, while the balance of 8% felt both apply to them. How they use these opportunities is another matter. Table 7.2 shows how their perception of opportunity compares with their approach to planning.

When it comes to establishing overall objectives, the entrepreneurs use four types of planning:

1. Project planning. They identify and plan, often rigourously, strategically important projects that represent a significant departure from their existing lines of business. The plan does not cover parts of the business that are not tied in to the project but it does offer a focus for the short-term and long-term decisions of the leading people in the business. Also, of course, the planned project usually defines, however subconsciously, the planned context of the entire business because of the steps that had to be taken to select the project in the first place.

But not everyone thinks of this as planning.

"I'm not one for long-term strategic planning — or even short-term. I'm not a believer in the theory of strategy. Once a year, we write down for our board what we're going to do in the next year. We look at services we provide and the industry classification of our clients. In the last few years, we've tried to look at areas we're not in, but should be. We're incredibly unsuccessful in one area, so we asked some of our newer people to try. They couldn't either. So now we've hired a consultant to tell us what we're doing wrong." — Chairman of a consulting firm in Toronto.

2. Goal setting. Some entrepreneurs plan by setting a specific, quantitative goal to shoot for. It may be annual sales or profit or annual growth rates in either. It may be number of employees or market share or asset base. The entrepreneurs usually don't specify how they're going to reach their goals — if they did, they'd be full-scale planners. Many of them remark how disappointing progress in one department is often balanced by unexpected progress in another. The value of the goals, however, is to provide a focus and a motivation for the key people in the business.

   Goal setters tend to be the most aggressive entrepreneurs.

   "I'm always making goals. I set a goal for each five-year segment of my life — personal and business. I write it down and put it away. It's surprising how close you get. 40-50 are my prime years." — President of a major pizza franchise in Toronto.

3. Setting a direction. This is the opposite of goal setting. Direction setters know where they're going, sometimes in considerable detail. Their approach to planning is like the statement of overall objectives in a full-scale plan. It may be a philosophical framework or a general statement of intent. It is not wishy-washy.

   "A plan is a broad direction. Five-year plans are meaningless. We do not write down our two-year plan — something invariably happens that injects a huge change in the second year. We only write down our 10-year plan." — President of a major manufacturer of retail systems in Toronto.

4. Full-scale planners. These are the people who come closest to the popular image of planners, although their version of it is heavily

streamlined. They are unanimous in their view of the purpose of planning.

> "Planning is the most important aspect of a plan. The process makes you take into account all of the elements of a business. Too often a company takes a plan and salutes it. Chances are it's out of date by the time it's printed." — President until last year of a major Toronto rental store.

Says another, even more committed to planning:

> "I'm stirring up and down all the time. I'm getting the involvement of the people who'll be implementing it... It's an iterative process. I give them the general direction, sometimes over two or three days, sometimes in a day, sometimes with a lot of documentation, sometimes without. And I ask them how far they can go in three years. It's not a neat process." — President of a service firm based in Toronto.

The entrepreneurs' approach to the time frame within which their plans are made varies widely with the type of planning they do. A time frame is not critical to project planning — only 33% of the entrepreneurs who plan this way had a time frame to their plans. The ones who don't have a time frame are usually planning projects that depend on the right conditions being created or found, so the timing of the project is not always controllable.

Three-quarters of the goal setters, on the other hand, have a time frame attached to their goal to give it some sense of urgency. Predictably, direction-setters don't hang their hats on time frames, and full-scale planners almost all have a time frame.

Table 7.1 shows that more than half the successful entrepreneurs perform the full-scale planning function.

**Table 7.1**[2] *How Entrepreneurs Plan*

Distribution of entrepreneurs between planning types — written and unwritten — and the time frame they set for themselves

| Planning type | Distribution of entrepreneurs | % that have a time frame | Average time frame | % that are written |
|---|---|---|---|---|
| | % | % | years | % |
| Project plans | 25 | 33 | 3.75 | 50 |
| Goal setting | 8 | 75 | 4.00 | 15 |
| Direction setting | 11 | 45 | 3.60 | 25 |
| Full-scale plans | 52 | 92 | 4.10 | 98 |
| No plan at all | 4 | 1 | 6.00 | — |
| **Average** | | **67** | **4.00** | **65** |

[2] *Ibid.*

Within each of these basic types of planning, there are two basic styles:

- Opportunistic planning. In this approach, the plan (which may or may not be written down) allows for radical changes in the firm's direction in the event that an appropriate opportunity comes up. In other words, the goal in the plan is such that the nature of the opportunities that can move the business towards its goal are not anticipated. They are left to the entrepreneur's judgement at the time the opportunities materialize.

  Often, opportunistic planners will exploit an opportunity that appears to have nothing to do with their goals — because they feel it will position them better to exploit another opportunity later on that will move them in the right direction.

  > "Sometimes, to arrive at a point, you have to go away from it first. The strategic path is a series of option points." — President of a manufacturer of water treatment equipment in Calgary.

- Strategic planning. In this approach, the definition of the goal is predicated on certain types of opportunity, although their timing and exact nature may not be known in advance. This doesn't mean, however, that unanticipated or unexpected opportunities are ignored. Seizing the right opportunities is critical to the success of any venture. Strategic planners are just a little more fussy about the context of any opportunities they will exploit.

The distinction between opportunistic and strategic planning is quite different from that between opportunity grabbers and opportunity creators. An opportunity creator can plan opportunistically just as a strategic planner can be an opportunity grabber. The table below shows the correlation between these two characteristics:

**Table 7.2**[3] *Where Opportunism and Strategy Meet*

Distribution of entrepreneurs who use strategic or opportunistic planning compared with opportunity creators or opportunity grabbers

| Perception of opportunity | Opportunistic planners | Strategic planners | Don't know |
|---|---|---|---|
| | % | % | % |
| Opportunity grabbers | 20 | 20 | 1 |
| Opportunity creators | 8 | 42 | 1 |
| Combined | 2 | 6 | — |
| **Total** | **30** | **68** | **2** |

The strategic planners predominate. The opportunity creators tend to be strategic planners, as might be expected, but the opportunity grabbers are evenly split.

The approach that entrepreneurs take to planning is determined to a significant degree by their attitude toward opportunity. Those who feel they create their own opportunities are much more likely to adopt full-scale plans than opportunity grabbers. Table 7.3 shows that the latter are much more inclined to go with specific goals or with a general direction.

**Table 7.3**[4] *Perception of Opportunity and Planning Types*

Distribution of entrepreneurs by their perception of opportunity and planning types

| Opportunity perception | Project plans | Goal setters | Direction setters | Full-scale plan | No plan |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Creators | 46 | 38 | 36 | 63 | 0 |
| Grabbers | 46 | 50 | 55 | 29 | 100 |
| Combined | 8 | 12 | 9 | 8 | 0 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

[3] *Ibid.*
[4] *Ibid.*

Comparable results derive from the planning type preferred by those who prefer strategic planning to opportunistic planning. Table 7.4 shows that the strategists prefer full-scale plans or goals, while the opportunists are happiest with setting themselves a broad direction or planning by projects. Only four people don't plan at all and all of them are opportunists, of course.

**Table 7.4**[5] *How Strategists Plan Differently From Opportunists*

| | Distribution of entrepreneurs by their planning style and planning type | | | | |
|---|---|---|---|---|---|
| **Planning style** | **Project plans** | **Goal setters** | **Direction setters** | **Full-scale plan** | **No plan** |
| | % | % | % | % | % |
| Strategic | 63 | 75 | 64 | 76 | 0 |
| Opportunistic | 37 | 25 | 36 | 24 | 100 |

There are also clear patterns of evolution in the approach toward planning as the firm grows older. The firms most likely to indulge in full-scale planning are those that have been controlled by the current owner for five years or less or for more than 21 years. It would be normal for mature firms to use elaborate planning, but the prevalence of this type of planning in the younger firms would seem to indicate that the increased emphasis on business plans for startups as well as acquisitions is having an effect.

[5] *Ibid.*

Once the younger firms are established, they tend to revert to more traditional patterns, adopting less elaborate plans. The table below shows how firms 6-10 years old favour project planning and goal setting, while those 11-15 years old favour direction setting, a natural progression. Once they reach the next age bracket, however, direction setting goes right out of favour, being replaced by project planning and goal setting — or no plan at all.

**Table 7.5**[6] *Evolution of Planning Types*

| | Planning type by number of years that the owner has owned the business | | | | |
|---|---|---|---|---|---|
| | **Number of years of control** | | | | |
| **Type of plan** | **0-5** | **6-10** | **11-15** | **16-20** | **21+** |
| | % | % | % | % | % |
| Project | 21 | 36 | 22 | 30 | 11 |
| Goals | 8 | 11 | 6 | 10 | 6 |
| Direction | 4 | 11 | 22 | 10 | 11 |
| Full-scale | 63 | 42 | 44 | 40 | 66 |
| No plan | 4 | 0 | 6 | 10 | 6 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

In the final analysis, however, the question must be asked: Does it work? The entrepreneurs in this study believed, sometimes reluctantly, that it does — provided there are no illusions about the nature of entrepreneurial planning. There was general agreement that the process of planning is more important than the plan itself.

When asked if their plans generally worked out as expected, many said they did. The answers may also reflect more about the plans themselves than whether they really worked out as expected. Sometimes, the planning process is immature or poorly-performed, in which case it is unlikely the results will bear any resemblance to the plan. Sometimes, the plan is well-performed but in far too great detail, in which case the outline may be accurate but the details will inevitably be wrong. Sometimes the pace of the environment is such that no plan can work out as expected. Often the plan works out as expected but more quickly than predicted.

[6] *Ibid.*

A recent study of the chief executive officers of INC. magazine's 500 fastest growing firms in the U.S.[7] confirms the utility of planning — less than one-sixth of the 242 CEOs found planning to be "not (or seldom) useful". (The average sales of these firms were $8.8 million, they employed 115 people and the findings on their approach to planning are close to those in the Canadian study.)

[7] John A. Seeger, Jeffrey C. Shuman, Nicholas C. Teebagy, from Bentley College. *"Culture-related differences in entrepreneurs' planning behaviour,"* ICSB. 1987.

# Appendix A: Definitions of Small Business

An enduring problem in talking about small businesses is defining what should be considered small. There are a great number of definitions, useful in differing circumstances. Here are some of the major ones:

The Small Business Branch of the Ministry of Industry, Trade and Technology defines small firms as those with fewer than 100 employees.

The Small Business Loans Act limits eligibility to firms with annual revenues of less than $2 million.

The Small Business Secretariat in the Department of Regional Industrial Expansion defines small business as firms with annual revenues of less than $2 million. Medium-sized firms have annual revenues of $2 million — $20 million. The rest are big firms.

The Small Business Administration in the U.S. — for which the definition must be precise because its loan programs depend on it — has this to say: "For business loan purposes, SBA defines a small business as one who, with its affiliate(s), is independently owned and operated, not dominant in its field and is within employment or sales size standard limitations developed by this agency.

"For most industries, the size standard limitations are set by average annual sales or revenues over the past three fiscal years, or by average employment over the preceding 12 months. The size standard limitations shown below reflect various ranges by industry, within the groupings. For example, in the retail industry, a retailer of children's wear has a size standard limitation of $3.5 million, whereas a department store has a size standard limitation of $13.5 million. In the manufacturing industry, a manufacturer of wine has a size standard limitation of 500 employees, whereas a manufacturer of tires has a size standard limitation of 1,000 employees. In the transportation grouping, there are both employment and revenue size standards, depending on the specific type of business.

"The size standard limitations are as follows:

| | |
|---|---|
| Manufacturing | 500 to 1,500 employees |
| Wholesaling | 500 employees |
| Retailing | $3.5 million to $13.5 million |
| Services | $3.5 million to $14.5 million |
| General contracting | $17 million in revenues |
| Specialty trade contracting | $7 million in revenues |
| Agriculture | $100,000 to $3.5 million in sales |
| Transportation | $3.5 million to $12.5 million in revenues and 500 to 1,500 employees." |

# Appendix B: Small Business Advocacy Reports

These research reports are available from Small Business Advocacy, Ministry of Industry, Trade and Technology, 7th Floor, Hearst Block, 900 Bay Street, Toronto, Ontario M7A 2E1 (416) 965-6304.

1. **Survey of Small Business Registrants, 1984 (October 1984)**

   Results of interviewing 911 Ontario entrepreneurs about the businesses they start. Includes information on investment, hiring intent, previous experience, type of business, why the business was started and demographics.

2. **Self-Directed RRSP Investment in Private Companies (May 1985)**

   Survey of characteristics of holders of self-directed RRSPs (150 people). Results compared to information obtained from 2,000 people when they either opened self-directed RRSPs or transferred funds to such an RRSP. Survey was conducted on behalf of SBA by Decision Marketing Research Ltd.

3. **Expanding Ontario's Small Business Development Corporations Program to Business Services (May 1985)**

   Argument for extending eligibility under Ontario's SBDC program to Ontario's business service firms. Also argues for expansion of SBDC's existing Match-up Service to introduce appropriate SBDC investors and small business owners and emphasize smaller placements of equity.

4. **An Advance Notice System for Proposed Regulatory Initiatives (September 1985)**

   Proposal to create an Advance Notice System in Ontario. Includes an examination of advance notice in place in other jurisdictions, description of Ontario's history with respect to advance notice, identification of principles to be considered in any improvement of the regulatory process and policy options and recommendations.

5. **Newly-Formed Small Businesses in Ontario, 1982-84 (August 1985)**

   Results of interviewing 861 Ontario entrepreneurs. Provides a profile of Ontario's small business owners and their attitudes about various issues and programs, as well as a comparison of unincorporated and incorporated businesses. As well, the research provides a profile of the kinds of businesses that are started and remain viable. Survey was conducted on behalf of SBA by The Creative Research Group.

6. **Small Business Payroll Taxes (March 1986)**

   The economic implications of payroll taxation on small businesses are examined. Also looks at the effects of abolishing Ontario Health Insurance Plan premium payments and replacing the payments with a 2% employer-paid payroll tax. Features an examination of impacts on an average small business, a garage, a restaurant, a construction firm and a manufacturer.

7. **Small Business Regulation and Paperburden (March 1986)**

   A joint project of SBA and the Department of Regional Industrial Expansion, Ontario Region, the study identifies and clarifies specific areas of regulatory and paperburden in Ontario's small business community. Looks at problems and problem sources identified by the general economic sectors and more specifically the tourism sector. Survey was conducted by The DPA Group Incorporated.

8. **Entrepreneurship and Small Business (April 1986)**

   A discussion paper tabled in the Ontario Legislature by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil, as a supplement to the Ontario Budget of April 1986. Describes: entrepreneurship in Ontario, new business formation and small firm performance.

9. **The Ontario Investment Network (April 1986)**

   Describes the rationale for the establishment of the Ontario Investment Network (presently operated by the Ontario Chamber of Commerce under the name Computerized Ontario Investment Network-COIN). Discusses the chronic shortage of equity capital suffered by the small business community across Canada.

10. **New Small Businesses (April 1986)**

    The 1986 survey of new unincorporated business starts. The results of 1,118 interviews show the age, sex, previous ownership and employment experience of new business owners as well as the reasons for starting the business. The study also breaks down the startups by sector and expected billings and source of investment.

11. **New Ventures: A Loan Guarantee Program for New Businesses in Ontario (June 1986)**

    Describes rationale for the New Ventures Program, announced in the Speech from the Throne in April 1986. Discusses access to financing problems of small businesses. Shows design of the New Ventures program including details on eligibility criteria, program administration, roles of co-sponsors, application processes and costs of program. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate.

12. **Small Business Capitalization and Proposed Pension Investment Reforms (August 1986)**

    SBA submission to the Pension Commission of Ontario regarding the policy recommendations for the regulation of pension fund investments. Argues for expanding the universe of eligible pension fund investments to include more small businesses. Includes copy of the Pension Commission recommendations.

13. **Targetting Employee Share Ownership Plans to Small Business (September 1986)**

    Describes the rationale for targetting the Employee Share Ownership Plan program (announced in the June 1986 Budget) to small businesses. Provides recommendations on how the plans' optimum use by the small business community may be encouraged.

14. **Workers' Compensation Experience Rating: A Claim Deductible Concept (October 1986)**

    The study examines the feasibility of introducing a concept of a claims deductible into the experience rating of claims costs under Workers' Compensation in Ontario. Study was conducted on behalf of SBA by William M. Mercer Ltd.

15. **Hours of Work and Overtime in Small Business: Five Case Studies (December 1986)**

    Case studies of hours of work and overtime practices in five Ontario firms: sewer and water main contracting, clothing manufacturer, courier and moving service, lumber and building supply, and weigh scale repair and distribution. Qualitative research on attitudes of owners towards overtime and data on firms and their practices.

16. **The State of Small Business (December 1986)**

    The first annual report on small business in Ontario. Features data on: the job creation record and growth of small business, profiles of the small business owner, franchising, women business owners, the aspirations and achievements of new business owners, small business financing and effects of public policy on the small business community. Tabled in the Ontario Legislature in December 1986 by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate. Available in French as *La Situation des petites entreprises*.

17. **University Centres of Entrepreneurship for Ontario (February 1987)**

    Describes rationale for the establishment of centres of entrepreneurship in Ontario universities. Included in the April 1986 Speech from the Throne.

18. **Ontario's Fast-Growth Companies (April 1987)**

    Examines the characteristics of 84 successful Ontario entrepreneurs. Study conducted on behalf of SBA by Decision Marketing Research Ltd.

19. **Small Business Payroll Taxes, 1987 (March 1987)**

    The 1987 update of the 1986 Small Business Payroll Tax study. Focusses on the increasing burden Workers' Compensation places on small businesses.

20. **The Status of Female Employees in Small Business (June 1986)**

    Survey of 353 Ontario small business owners (in the manufacturing sector) regarding the status of women in their firms. Examines employment patterns, wage and salary administration, personnel practices and company policies. Also looks at which form of pay equity legislation would least affect the viability of small businesses. Survey was conducted on behalf of SBA by Hay Management Consultants.

21. **Pay Equity & Ontario's Small Business Sector (June 1986)**

    Survey of 302 Ontario small business owners (representing all industrial sectors) regarding the types of personnel practices they follow in their firms. Also includes results of 16 interviews with persons knowledgeable about pay equity and small business regarding how to implement pay equity in small businesses. Survey conducted on behalf of SBA by Urban Dimension Group Inc.

22. **Business Transfer Tax: Modelling the Impact on Small Firms (November 1987)**

    Study demonstrates how profits and sales in several Ontario small businesses might be affected by the federal government's proposed business transfer tax. Examines eight types of businesses: retail florists (unincorporated and incorporated), retail drug stores (incorp.), rubber processors and suppliers (incorp.), fan and ventilator manufacturers (incorp.), engineering processing firms (incorp.) and lodges and motels (incorp.).

23. **Business Starts in Ontario: An Econometric Analysis and Forecasting Model (August 1987)**

    Reports on the determinants of new business starts, including changes in population and labour force, industrial structure and rates of unemployment, output growth, costs of borrowing and inflation. Includes a computer-based forecasting model for the next five years. Study carried out by Quantec Research Ltd.